ADJUSTMENTS TO TIMBER SALE CONTRACTS ON NATIONAL FOREST SYSTEM LANDS AND PUBLIC LANDS

HEARING

BEFORE THE

SUBCOMMITTEE ON
PUBLIC LANDS AND RESERVED WATER

OF THE

COMMITTEE ON
ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 2805

A BILL TO PROVIDE FOR THE ORDERLY TERMINATION, EXTENSION, OR MODIFICATION OF CERTAIN CONTRACTS FOR THE SALE OF FEDERAL TIMBER, AND FOR OTHER PURPOSES

S. 2818

A BILL TO AUTHORIZE THE SECRETARY OF AGRICULTURE FOR NATIONAL FOREST SYSTEM LANDS AND THE SECRETARY OF THE INTERIOR FOR PUBLIC LANDS TO ADJUST THE TERMINATION DATE OF CERTAIN CONTRACTS FOR THE SALE OF TIMBER FROM NATIONAL FOREST SYSTEM LANDS AND PUBLIC LANDS

AUGUST 16 and 17, 1982

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CONTENTS

Page

Hearings:
  August 16, 1982 1
  August 17, 1982 275
S. 2805 3
  Department of Agriculture report 5
S. 2818 11

MONDAY, AUGUST 16, 1982

STATEMENTS

Adams, Art, president, Nordic Plywood, Inc., Roseburg, Oreg 198
Atiyeh, Hon. Victor, Governor, State of Oregon 13
Bendix, Gerhart, secretary-treasurer, Hiridge Lumber Co., Yreka, Calif 166
Burrill, Michael E., president, Eugene F. Burrill Lumber Co., Medford, Oreg 200
Coates, Bill, chairman, Board of County Supervisors, Plumas County, Calif 270
Davidson, Diane, owner/operator of Big Bear Shopper, Inc., White City, Oreg 183
Davis, John W., general manager, Western Timber & Logging, Willamette Industries, Inc., Portland, Oreg 89
Ehinger, Paul F., executive vice president, Western Resource Alliance, Eugene, Oreg 123
Emmerson, A. A. "Red", president, Sierra Pacific Industries, Arcata, Calif 134
Ewing, Arnold, executive vice president, North West Timber Association, Eugene, Oreg 203
Fisher, C. Donald, vice president, timber, Bohemia, Inc., Eugene, Oreg 192
Harrison, W. H., vice president, Millway Lumber Co., Bradley, S.C., representing Southeastern Lumber Manufacturers Association, accompanied by Robert L. Davis, forester, Southeastern Lumber Manufacturers Association, Forest Park, Ga 245
Hatfield, Hon. Mark O., a U.S. Senator from the State of Oregon 1
Johnson, E. P. "Bud", managing partner, C&D Lumber Co., Riddle, Oreg 52
Jones, Aaron U., president, Seneca Sawmill Co., Eugene, Oreg 170
Jones, Gary E., vice president, Summit Timber Co., Darrington, Wash 165
Kirby, Peter C., coordinator, forest management program, the Wilderness Society 214
Koven, Richard, coordinator, Northwest Forest Workers Association, Eugene, Oreg 259
Mahoney, Tim, Washington representative, the Sierra Club, and representing the National Audubon Society 224
Newbry, Lynn, vice president, Medford Corp., Medford, Oreg 80
Resler, Rexford, A., executive vice president, American Forestry Association 115
Saltman, Alan, on behalf of Aaron U. Jones, president, Seneca Sawmill Co., Eugene, Oreg 168
Sohn, Fred, president, Sun Studs, Inc., Roseburg, Oreg 60
Stimpson, William H., president, National Forest Products Association 104
Stock, James F., Sweet Home, Oreg 191
Swift, G. Robin, Jr., president, Swift Lumber Co., Atmore, Ala 242
Williams, Harry, president, Williams Forest Products Corp., Cleveland, Tex., and Southern Forest Products Association, New Orleans, La 228

TUESDAY, AUGUST 17, 1982

STATEMENTS

Page

Baucus, Hon. Max, a U.S. Senator from the State of Montana 281

Bjorklund, Norman E., executive vice president, Industrial Forestry Association, Portland, Oreg 383

Cheek, George C., senior vice president, public affairs, Potlach Corp., San Francisco, Calif 325

Cosse, Clark R., Southern Forest Products Association, on behalf of Harry Williams, president, Southern Forest Products Association, Cleveland, Tex... 399

Crowell, Hon. John B., Assistant Secretary for Natural Resources and Environment, Department of Agriculture, accompanied by Max Peterson, Chief, Forest Service; Vern Engdahl, Department of the Interior; and Charles Frost, Bureau of Land Management 282

Davis, John W., general manager, Western Timber & Logging Operations, Willamette Industries, Inc., Portland, Oreg 322

Davenport, John A., independent forest consultant, Portland, Oreg 405

Dennison, William N., executive vice president, Western Timber Association, San Francisco, Calif 339

Harrison, W. N., vice president, Millway Lumber Co., Bradley, S.C., representing Southeastern Lumber Manufacturers Association, Forest Park, Ga 403

Hurst, Jim, Jr., co-owner, Owens-Hurst Lumber Co., Eureka, Mont 361

Kirby, Peter, coordinator, forest management program, the Wilderness Society 395

Knaugh, Wayne, vice president of resources, P&M Lumber Products, Stockton, Calif 362

Kuehne, M. J., executive vice president, Northwest Independent Forest Manufacturers, Tacoma, Wash 377

Manke, James D., general manager, Manke Lumber Co., Tacoma, Wash 380

Melcher, Hon. John, a U.S. Senator from the State of Montana 280

McClure, Hon. James A., a U.S. Senator from the State of Idaho 275

Mueller, Tim A., vice president, Bennett Lumber Products, Inc., Princeton, Idaho 334

Murkowski, Hon. Frank H., a U.S. Senator from the State of Alaska 279

Newbry, Lynn, vice president, Medford Corp., Medford, Oreg 320

Robbins, Scott, representing Black Mountain Spruce, Craig, Colo 363

Rutherford, Harold, Commissioner of Lane County, Eugene, Oreg., representing the National Association of Counties 366

Sohn, Fred, president, Sun Studs, Inc., Roseburg, Oreg 318

Swift, G. Robin, Jr., president, Swift Lumber Co., Atmore, Ala 401

Symms, Hon. Steven D., a U.S. Senator from the State of Idaho 276

Turner, Ted, representing Salmon River Lumber Co., Riggins, Idaho; Evergreen Forest Products, Tamarac, Idaho; Jenifer State Lumber Co., Juiliaetta, Idaho; and Bly Lake Forest Industries, Bly, Oreg 360

APPENDIX

Additional material submitted for the record 413

ADJUSTMENTS TO TIMBER SALE CONTRACTS ON NATIONAL FOREST SYSTEM LANDS AND PUBLIC LANDS

MONDAY, AUGUST 16, 1982

U.S. SENATE,
SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 3110, Dirksen Office Building, Hon. Mark O. Hatfield, presiding.

Present: Senators Hatfield and Bumpers.

Also present: Tony Bevinetto, professional staff member, and Thomas B. Williams, professional staff member for the minority.

OPENING STATEMENT OF HON. MARK O. HATFIELD, A U.S. SENATOR FROM THE STATE OF OREGON

Senator HATFIELD. The hearing will please come to order. For the next 2 days, the Subcommittee on Public Lands and Reserved Water will hear testimony on S. 2805, to provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes; and S. 2818, to authorize the Secretary of Agriculture for national forest system lands and the Secretary of the Interior for Public Lands to adjust the termination date of certain contracts for the sale of timber from national forest system lands and public lands. Without objection I will place copies of both bills and departmental reports as received in the hearing record.

We will also receive testimony on other legislative concepts which would address the problems of the timber industry.

Many of you have traveled long distances to testify here and in the House during the next 2 days. We have a full witness list and I would ask all of you to summarize your written testimony in your oral statements. The Subcommittee on Forests, Family Farms, and Energy of the House Agriculture Committee is holding a hearing tomorrow morning. The subcommittee chairman has informed me that that hearing will be over in time so that those of you who are testifying can appear before this subcommittee's hearing at 2 p.m. tomorrow in this room.

The hearing record will remain open for 10 days, but I would urge those who have testimony yet to come to provide it at the earliest possible time. There are not many legislative days left in this Congress.

The administration's witnesses which were scheduled to be here this morning have asked for a time delay. Hopefully they will have their testimony cleared for this afternoon and tomorrow afternoon's hearing.

[The texts of S. 2805 and S. 2818 and the Department of Agriculture report on S. 2805 follow:]

II

97TH CONGRESS
2D SESSION

S. 2805

To provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes.

IN THE SENATE OF THE UNITED STATES

AUGUST 3 (legislative day, JULY 12), 1982

Mr. HATFIELD (for himself, Mr. PACKWOOD, Mr. JACKSON, Mr. GORTON, Mr. CRANSTON, and Mr. MURKOWSKI) introduced the following bill; which was read twice and referred jointly to the Committees on Agriculture, Nutrition, and Forestry and Energy and Natural Resources for not more than thirty days

AUGUST 4 (legislative day, JULY 12), 1982

Ordered further, that the 30-day requirement to report not apply to the Committee on Energy and Natural Resources

AUGUST 20 (legislative day, AUGUST 17), 1982

Ordered further, that the 30-day requirement to report not apply to the Committee on Agriculture, Nutrition, and Forestry

---

A BILL

To provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress finds that in order to avert widespread bankruptcies, sustain the flow of income from Federal forest lands to the Federal Treasury and to units of local government, and assist in restoration of employment, it is in the national interest to provide for the modification of certain contracts for the purchase of timber from Federal lands.

SEC. 2. Upon a showing of economic hardship by the private contracting party, the Secretary of the Interior for public lands and the Secretary of Agriculture for national forest system lands are authorized to modify any timber sales contract bid prior to January 1, 1982. Such modifications may include—

(1) termination of a portion of timber sales contracts for the purchase of timber bid prior to January 1, 1982, held by a private contracting party;

(2) extension of the termination dates of such contracts, not to exceed five years beyond original termination dates of such contracts; and

(3) modification of the purchase price of the timber sold, reflecting current market values, for such contracts that are not extended.

SEC. 3. The Secretaries shall publish procedures for the modification of contracts pursuant to this Act in the Federal Register within thirty days after the date of enactment of this Act.

SEC. 4. The authority granted pursuant to this Act shall expire one year after the date of enactment of this Act.

Official Committee File

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

SENATE COMMITTEE ON
ENERGY AND NATURAL RESOURCES
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November 30 1982

Honorable James A. McClure
Chairman, Committee on Energy
and Natural Resources
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

As you requested, here is our report on S. 2805, a bill "To provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes," and on S. 2818, a bill "To authorize the Secretary of Agriculture for National Forest System lands and the Secretary of the Interior for public lands to adjust the termination date of certain contracts for the sale of timber from National Forest System lands and public lands."

The Departments of Agriculture and the Interior recommend that the bills not be enacted.

S. 2805 would authorize the Secretaries of Agriculture and the Interior to modify any timber sales contracts involving National Forest System lands or public lands which were bid prior to January 1, 1982. Three forms of modification are delineated by the bill: (1) termination of a portion of timber volumes under contract, (2) extension of the termination dates of such contracts up to 5 years beyond their original termination date, and (3) modification of the purchase price for contracts not extended. Modification could be made only upon a showing of economic hardship by the private contracting party. The Secretaries would be required to publish procedures for modification of contracts within 30 days of enactment. The authority provided by the bill would expire one year following enactment.

S. 2818 would authorize the Secretaries of Agriculture and the Interior to adjust the termination date of contracts for the purchase of National Forest System or public land timber that were entered into before January 1, 1982, without penalty or other payment. The adjustment would be made at the written request of the purchaser. The adjusted term of the contract would be equal to the original term of the contract but could not exceed 5 years.

The bills would grant relief to certain purchasers of National Forest System and public land timber. These purchasers hold contracts that cannot be economically operated at present prices for processed products. Since this timber was sold, prices have fallen sharply in response to reduced levels of housing construction.

During the first quarter of 1980, the average bid price for Douglas-fir timber on National Forests in western Oregon and Washington was $486 per thousand board feet. During the first quarter of 1982, this price had dropped to $153 per thousand board feet. Some producers have closed or curtailed operations because they hold high-priced contracts, leaving the reduced demand to be met by

BEST COPY AVAILABLE

high and lower priced timber so they can continue to operate on a curtailed basis utilizing only the lower priced timber.

The Federal Government plays a significant role in the supply and demand situation for lumber and plywood. About 25 percent of the timber used to manufacture these products is harvested from Federal lands, nearly all of which is managed by the Forest Service or the Bureau of Land Management. The largest volumes of Federal timber are sold in the Far West; sales in the Pacific Northwest and northern California comprise over 60 percent of the average annual volume sold by the Federal Government. Many purchasers in this region own little or no forest land and are heavily dependent upon Federal timber for their raw material supply. Over 80 percent of Federal timber purchases are made by small businesses, purchasing over half the volume of Federal timber sold.

Prices for the Federal timber that is the target for the provisions of S. 2805 and S. 2818 were bid excessively high for several reasons. The forest products industry, particularly those firms that owned little or no timber land, expected that as the timber from private sources became scarce, increasing volumes would be made available from the large inventories of Federal timber. Gradual increases did occur from 1950 until 1969 but sale volumes have been at about the same level since then, averaging between 10 and 11 billion board feet annually. Another reason for the uncertainty about supply was caused by controversy over designation of additional National Forest System and public lands as wilderness. Such designations reduced the level of Federal sales. Continuing controversy over management of other roadless areas on Federal lands created concerns by purchasers about the future timber supplies. Inflation, too, has played a role, which, when coupled with increased demand for new housing as a consequence of population growth and new family formations, caused timber prices to move up even faster than the wholesale price index. These factors created fierce competition among firms seeking to assure an adequate supply of timber and led to excessive bidding. The producer with timber under contract at least had a hope of protecting his investment, whereas the one without timber was faced with imminent closure of his operation. A number of firms have gone out of business as a result of these competitive factors. Indeed, it is likely that some of those firms made judgments that prices on these sales were simply not prudent.

The Federal timber selling agencies have been acutely aware of the problem being experienced by holders of the high-priced contracts and have taken steps in the last 2 years to alleviate them. Both agencies have granted extensions of termination dates for the contracts. The Forest Service has implemented two such extensions. The first, in 1980, provided for one year extensions under fairly stringent conditions. The second, in October 1981, was for 2 years and provides only that interest payments be made on deferred extension deposits on the price of the unharvested timber. The agency could grant additional extensions under authority of section 14(c) of the National Forest Management Act of 1976 (90 Stat. 2959). The BLM has extended its contracts to December 31, 1983, and could grant further extensions. Also, the National Forests and BLM in Oregon and Washington rearranged their timber sale program for fiscal year 1982 in order to make smaller volume and shorter term sales. This was done to provide operators with an opportunity to acquire timber at prices which they could operate in the current market. Stumpage prices have come down substantially, thereby enabling buyers to reduce their overall costs. Availability of lower priced timber will also permit averaging such volumes against the older, higher priced volumes so that the latter sales can be operated.

BEST COPY AVAILABLE

The Forest Service has also acted to discourage future purchasers from buying and holding large volumes of timber under contract, thereby deterring a repeat of the bidding which led to high-priced timber contracts. An advance cash deposit is now required of the successful bidder within 30 days of sale award. The amount of the performance bond has been increased. A system of discounting bid prices to encourage early performance of the contract has been established, and the purchaser is now required to make a midpoint payment on the contract. These changes apply to contracts advertised since April 1982; they are not retroactive. The BLM also is changing its procedures to require up front payment of 5 percent of purchase price up to a maximum of $25,000. They also will require payment of at least 40 percent of purchase price by the end of the second year on a 3 year contract. They will prohibit purchasers who have defaulted from bidding on new sale until arrangements for payment of damages on defaulted sales are made. Also, it will require that the maximum required as installment payments be $50,000 instead of $10,000.

A purchaser who holds the high-priced timber and who does not complete the harvest of timber required by the contract will be in default on that contract. We fully expect some of the high-priced sales to default. The defaulting purchasers will then be liable for damages to the United States. The amount of damages is determined by selling the timber, with the original purchaser becoming liable for the difference between the contract value at the expiration date of the original contract and the resale value, plus costs incurred by the agency in reselling the timber. Under current policies a defaulting purchaser is prohibited from bidding on the resale.

We strongly oppose any rollback of prices on high-priced contracts. Rollbacks are grossly inequitable. It allows those who purchased timber at high prices to enjoy the advantages of holding it without having to pay the agreed price, while those who would not bid the excessive prices have, in many instances, suffered the consequences of not having an adequate timber supply. Contract termination without penalty, while having similar effects, does make the high-priced, inoperable timber available again to all prospective purchasers and would permit early operation of the resold timber to occur. But termination totally relieves the original purchaser of his contractual obligations, all at the expense of the United States. In a free market system mistakes are paid for by the person entering into the contract.

Extension of the contract term without penalty or payment that might otherwise be required simply adjusts the term of the contract. A "contract extension" under the Forest Service contract can be granted under the terms of the contract but this requires a reappraisal of the timber, possibly leading to a higher contract price, and the imposition of additional financial obligations on the purchaser, such as payment for the balance of the timber at the midpoint of the extension period. Under present authority and administrative procedure, the Forest Serivce is constrained from converting "extensions to contract term adjustments" by the provisions of the contract and by the principle that an existing contract cannot be modified to the detriment of the Government. We do not at this point favor legislation to lengthen existing contracts. We believe that if contracts are not operated within the period of extension currently available by administrative action that the contracts should be defaulted and that the defaulting purchasers should pay whatever damages may accrue by reason of default. At present, defaults are not imminent on BLM contracts. Defaults are imminent on only those Forest Service contracts on which the purchaser is either unwilling or unable to meet the conditions for a 2-year extension.

We do see a need for new authority to deal with defaulted contracts; flexibility to deal with a defaulter's obligation for damages is desirable. We suggest legislation that would authorize the Secretaries of Agriculture and the Interior to enter into and to amend agreements with purchasers and their sureties who have incurred obligations for damages by reason of default. Such agreements could specify the schedule for payment of damages; the rate and schedule for interest payments; the security, if any, to be provided; conditions under which subordination of the Government's interest in the security will be granted; and other provisions to which the Secretaries and defaulting purchasers and their sureties might agree. The amount of damages still would be determined either by resale of the timber or by uniformly applicable rules prescribed by regulations developed by the respective Secretaries.

The purpose of such authority would be to assure an eventual recovery of damages by the Government without forcing the defaulter into bankruptcy. We believe that the availability of such authority could save many businesses and prevent much expensive and time-consuming litigation. The Government, rather than implacably pursuing recovery of the amount owed, would in the exercise of discretion conferred upon the Secretaries be able to reach agreement with the defaulter and his surety for payment of the obligation on such terms as would allow the defaulter to remain in business. The United States and the counties which share in timber sale receipts thus would eventually recover the original contract price in many cases, although later than was originally planned. A draft of legislation that would accomplish this suggestion is enclosed.

While we are cognizant of the need to resolve the issue of high prices, we also stress the importance that the regular timber sale programs of the Forest Service and BLM be carried on during these difficult economic times. This is important to assure availability of wood product supplies on a regular basis and in needed quantities to meet increased market demands in the future at reasonable prices. Timber from these new sales could be harvested promptly, thereby keeping producers operating at least part time as the market for wood products allows. Furthermore, the availability of lower priced timber from these new sales will permit averaging such volumes against the older, high-priced sales so that the older sales can be harvested and processed. Continuing the regular sale program will also permit the accomplishment of our objectives of providing employment and maintaining the flow of receipts to the Treasury and to the counties.

We have conferred with the Department of the Interior in the preparation of this report. It concurs in the contents of this report.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

John R Block

John R. Block
Secretary

Enclosure

USDA SUPPLEMENT
RECOMMENDED SUBSTITUTE TO S. 2805/S.2818

A BILL

To authorize the Secretary of Agriculture and the Secretary of the Interior to enter into agreements concerning timber sale contracts involving National Forest System and public lands.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of Agriculture for National Forest System lands and the Secretary of the Interior for public lands administered by the Bureau of Land Management are authorized to enter into a bilateral contract of accord with any purchaser who is in default on a timber sale contract: Provided, That

(a) Prior to execution of the bilateral contract of accord, the purchaser executes a confession of judgment for the entire amount of damages, as calculated by the Secretary under the appropriate standard method then current for calculation of damages;

(b) The bilateral contract of accord establishes a payment schedule, under which the entire amount of damages, plus interest calculated at the Government cost of funds rate as established by the Department of the Treasury, will be paid in regular installments of a size and frequency that bear a reasonable relation to the amount of damages and the purchaser's ability to pay;

(c) The bilateral contract of accord must be supported by a security interest in the property of the purchaser when the Secretary believes such security is appropriate, in which case the bilateral contract of accord shall specify those conditions under which the Government would consider subordination of its security interest;

(d) The maximum term of bilateral contract of accord does not exceed 10 years;

(e) In the event a purchaser breaches the bilateral contract of accord, the Secretary shall have the option of enforcing the accord, or enforcing the underlying obligation by means of the confession of judgment; and

(f) The surety for any performance bond on the underlying contract must agree in writing prior to approval of the bilateral contract of accord that the surety's payment obligation will be deferred until the purchaser breaches the bilateral contract of accord, in which event the surety will be required to make immediate full payment.

II

97TH CONGRESS
2D SESSION

S. 2818

To authorize the Secretary of Agriculture for National Forest System lands and the Secretary of the Interior for public lands to adjust the termination date of certain contracts for the sale of timber from National Forest System lands and public lands.

IN THE SENATE OF THE UNITED STATES

AUGUST 5 (legislative day, JULY 12), 1982

Mr. McCLURE (for himself and Mr. SYMMS) introduced the following bill; which was read twice and referred to the Committee on Energy and Natural Resources

---

A BILL

To authorize the Secretary of Agriculture for National Forest System lands and the Secretary of the Interior for public lands to adjust the termination date of certain contracts for the sale of timber from National Forest System lands and public lands.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of Agriculture and the Secretary of the Interior are authorized to adjust the termination dates of any contracts for the purchase of timber from National Forest System lands and public lands that were entered into before January 1, 1982, without penalty or payment that might otherwise be required for such adjustments, at the written request of the purchaser, for a period equal to the original term of the contract but not to exceed five years.

Senator HATFIELD. I think it is very obvious that the western timber industry is suffering a severe depression. It has been in that state for quite some time, and without action of some kind the Federal Government will be facing massive default on contracts; a condition which could decimate many of the smaller companies and reduce the revenue to the Federal treasury as well as to the local governments who now share in that revenue from the sale of timber.

I believe the question is not whether something should be done, but what should be done to alleviate the situation, and that's why we are here today.

I am very pleased to invite to the witness table our first witness, a man who has been long concerned about this because he happens to be the Governor of the State that produces the major part of our timber products, a State which has great dependency on the timber economy, and a man who has been fighting for the cause of the economic problems, not only nationally, but especially at home. I have known him many years. He is one of my close friends. I think Oregon is most fortunate to have the kind of leadership he provides in these times of stress that we have.

Governor, if you would like to come to the table, we would be most delighted to hear from you. I know you have made a great personal effort to be here. You've been flying all night, and will be returning at noontime today to do your duties in Oregon. I think it is indicative of the kind of priority that you've placed on this problem as you represent the people of our State. I know they must be very proud that you would make this extra effort far beyond the call of duty. I am very delighted to welcome you.

STATEMENT OF HON. VICTOR ATIYEH, GOVERNOR, STATE OF OREGON

Governor ATIYEH. Thank you, Senator. I do appreciate both your friendship and the long years we've had together and served together, and the work we've done together.

Senator HATFIELD. And the many years we will have together in the future.

Governor ATIYEH. Thank you. I am especially grateful for your Senate bill 2805 which gives me an opportunity to speak on behalf of that measure as well as to use that as a platform to describe to whoever might listen the situation we find ourselves in.

I speak not only as the Governor of the Nation's leading timber producing State, but also as the chairman of the Western Governors' Conference of which five of the affected seven States are at this time supporting.

This legislation would authorize the Bureau of Land Management and the U.S. Forest Service to modify, terminate or extend Federal timber sales contracts. Such change would offer hope for the survival of one out of every two jobs in the State of Oregon.

Senator, your patient and courageous stewardship of this concept reflects statesmanship at its best. For nearly a year, he and Senator McClure worked hard to bring together, and to keep together, widely divergent interests and points of view.

Senator Hatfield never gave up. And now, largely because of his efforts, Congress has an opportunity to restore thousands of jobs in Oregon.

Oregon became America's premier supplier of lumber and wood products so that decent, affordable housing would always be an irrevocable national priority.

But, over the past 5 years, that priority has been displaced—shouldered aside by a different game plan with different rules and different goals. Today, only 10 percent of American families can afford a new home, can afford what was once thought of as the American dream and has now turned into a nightmare.

Oregon did not lead the charge for exorbitant interest rates. Oregon did not dismantle the Nation's traditional sources of mortgage financing.

Oregon had no part in the faustian bargains that plunged this Nation into recession. Why, then, is it that Oregon must be bled white on the sacrificial altar of trial and error solutions?

Is this Nation indeed indivisible? Or are we a fair weather union of sovereign States willing to let the devil take the hindmost in stormy times?

Let me make sure it's understood, Senator, and I know you know this is correct. Oregon is not scratching and whinning at the back door for loans and subsidies. The intent of this legislation says that it is not in the best national interests to let one small Western State wither and die.

Can you blame Oregonians for believing that we have been written off as expendable? Can you understand why it makes me angry to come here and be told, "It is your problem, Governor. You solve it."

My problem is, Senators, that the Federal Government owns 52 percent of my State and 57 percent of Oregon's commercial timber. Oregon owns 3 percent. I can assure you of this: Reverse that management and I will solve Oregon's problems.

Our State is saddled with a Federal timber management mentality that knows how to deal with the good times but is stricken with paralysis in hard times. That is my problem, Senators. But only Congress can solve it.

Senator Hatfield's bill offers a handup, not a handout. This legislation will not deprive the U.S. Treasury of 1 cent in revenue. It is, in fact, the one ray of hope that the Federal Treasury can avoid forfeiture of millions and millions of dollars through contract defaults and bankruptcies.

It is important to keep in mind that 75 percent of all revenue earned from the sale of federally owned timber in Oregon goes to the U.S. Treasury. In 1979, that amounted to $460 million.

Those were the good times. Today, the situation is drastically different. In Oregon and Washington, the Federal Government has 20 billion board feet of timber under contract. As much as 75 percent of that timber cannot economically be harvested and likely will not be harvested under existing contract conditions.

If worse comes to worse, contract defaults and bankruptcies, the best the Federal Government can expect to collect is 24 cents on the dollar.

Simple contract extensions are not the answer. No timber will be cut. No jobs will be restored when we need them most. Timber management will be in complete dissarry. Revenue to Oregon counties and school districts will send us reeling closer to a complete economic collapse. Extensions will only postpone the inevitable.

Senators, let me put the situation in the frankest terms possible. The wood products industry in my State is gasping for air. It is afflicted with the cancer of indifference at the national level where zealous economic theorists—who do not know a green chain from a watch fob—play elitist numbers games. That may be heady stuff here in Washington, D.C., but in Oregon those numbers translate into human suffering and despair.

I understand why Congress and the administration is deeply concerned with a national unemployment rate of 10 percent. In Oregon today, we would consider 10 percent a positive trend. Let me put that into perspective. Thirty-four percent of our sawmill workers are laid off or working curtailed shifts. Nearly 25 percent of our plywood mill workers have been laid off, 33,350 jobless workers have exhausted unemployment compensation. Lumber production is down 30 percent from normal. Twenty-nine plywood mills have shut down. Twenty-six sawmills are closed.

Believe it or not, there is more. In his floor statement on this legislation, Senator Hatfield offered a grim inventory. Since 1979, Oregon has lost 22,000 jobs in the forest products industry. Production is limping along at 35 percent below capacity and getting worse.

Ten wood products firms have taken bankruptcy in less than 2 years. Six remodeling firms have gone bankrupt. Dozens more are teetering on the edge of insolvency.

Oregon counties, school districts and State government face catastrophic timber revenue shortfalls that could exceed $100 million.

In many Oregon counties in which the Federal Government owns most of the forest resources—and pays no taxes—the county's share of revenue from Federal timber sales is the primary source of funding for roads and schools.

In 1978–79, a peak year for Oregon's timber economy, revenue to Lane County from Federal timber sales was $36 million, half the county's budget. Timber revenues in Lane County will be cut in half next year.

In Grant County, timber revenues in 1978–79 were $6 million. Next year, those revenues will drop to $1.6 million, a 74-percent decrease.

In Curry County, where 66 percent of the total budget for roads and schools is supported by Federal timber revenues, there will be a 77-percent drop in revenues next year.

Those counties and others have cut budgets to the bone. The workforce has been reduced. Services have been cut. There is no alternative but to ask local property taxpayers to approve special levies. But, in Lane County, unemployment is at 11.4 percent, well above the national average. Taxpayers cannot give what they do not have.

We are all searching for the keys to economic recovery. It may be that our new course will correct errors of the past and lead us to a lasting cure. But, the forest products and homebuilding industries may not live long enough to be cured. If you doubt that, check their pulse. New housing starts are down 60 percent since 1978.

If these industries die, or are so severely damaged that a full recovery is in doubt, then we can stop the debate on whether homeownership should be restored as a national priority of the highest order. It simply will not matter.

Nine months ago I came to Washington to testify before subcommittees chaired by Senator Packwood and Senator Danforth. Those subcommittees were investigating the causes of the most severe recession this Nation's forest products and homebuilding industries have ever suffered.

Last November I spoke on behalf of 17,000 Oregon men and women who had lost manufacturing jobs. Today I speak on behalf of 25,000 jobless workers in that sector.

I told those subcommittees what I would do to help Oregon help itself. And, I asked that Federal timber management agencies follow our lead.

I returned to Oregon and declared a State of Emergency in our timber products industry. That action made small mill owners and logging operators eligible for low interest Federal assistance loans.

A special session of the Oregon Legislature approved my plan to authorize the State forester to modify timber sales contracts for State-owned stumpage. I have presided over three special sessions to rebalance our budget.

New contract procedures provided relief to holders of State timber contracts who could not otherwise cut and sell that timber in a depressed market.

Since July 1, 86 or 88 timber sales subject to new procedures have been modified. The average rollback was about 44 percent. By mid-July, loggers were harvesting timber on 61 contracts administered by the Oregon Board of Forestry. Of those 61, 35 were subject to the rollback.

In all probability, none of those 35 projects would be underway today, and none of the 860 new jobs would exist without contract modifications and other relief measures. By September, most of the 86 contracts we modified will be active.

You must remember, Senators, that State-owned forest lands in Oregon comprise just 3 percent of our timber resources. But, by facing reality and modifying our contracts we will have restored 1,450 jobs by the end of this year. Some have argued that the State will lose money because we rolled back prices. That is utter nonsense. We had two choices: 100 percent of nothing or 56 percent of something.

Congress now faces the same choices. There is no reason why Federal timber management agencies cannot do as well as we have—56 cents on the dollar—instead of 24 cents on the dollar if nothing is done.

Nine months ago, I told Congress what I would do to help Oregon. I did what I said I would do.

The bill, in effect, says to the Secretaries of Interior and Agriculture: "Here is a serious problem. Here is the authority to deal with it. Do it."

The bill will not cure all our ills, nor is it intended to. It will bring desperately needed relief to the people of my State, who have been battered so unmercifully by forces far beyond their control.

Senator, I am aware of the attitude of some of the other States in our Nation, and I find it personally unconscionable that they should be speaking about the fact that Oregon would have an unfair advantage, that we should do nothing but let Oregon die in the process. I can't tolerate that. Nor do I find that an acceptable practice in this country of ours.

I thank you for the opportunity of letting us make our case, both to you—I don't think we really have to do that—but especially to your fellow Members in Congress and maybe the administration and people throughout the United States. Thank you very much.

Senator **Hatfield**. Thank you, Governor. You have given us a very powerful statement and made the case extraordinarily effective. I cannot tell you how much this testimony means.

I think it's very interesting that you have commented on some of the dismal ignorances that is exhibited at the Federal level. I use to think that was solely from the Office of Management and Budget, but we've had a new high in idiotic and stupid statements come out of the Library of Congress this time. The quality of the Library's research is usually fairly high. I think in this case if I had been a librarian, I would have fired the person that even wrote this and put his name to it. His thesis was that we would, by any kind of a modification, particularly rollback, we would lose $2 billion in Federal revenues.

I think we make it very clear that what do you lose if you can't have the contract performed. But out of this stupid report no intelligent person could read that without understanding there was evidentally some person who didn't know the difference between a spruce tree and a spruce bud.

With that kind of attitude expressed in that report and a few others like it around here, what is the answer to those who say keep the timber operators' feet to the fire. Make them perform?

Governor **Atiyeh**. If you keep their feet to the fire, Senator, they are going to burn up altogether, and you will end up giving the Federal Government nothing, and we will end up with a devastation.

As Governor, I am sure you understand what I am saying. I want those mills there because I do believe our economy will improve, and I do want a place for people to work. And I do want Oregon to continue to do what it's done over these years, and that is provide homes for the people in the United States.

The absolute ignorance that is displayed is appalling, and when I think about all the different companies, the individual companies, and the thousands of Oregonians out of work and no one seems to really care.

You know, I can recall the story about George Washington. I'm sure you've heard it. When he was at Valley Forge and the troops were so desperate and he sent a letter to Congress asking for some help, and he received no answer. He wrote again and received no answer. His men were freezing and they were hungry and dying, and he was asking for food and clothing. Then the third time he wrote and he said, "Is anyone there? Does anyone care?"

That's the way I feel, Mr. Chairman, and I am sure you do as well. We do need a response.

Senator **Hatfield**. You say Oregon has adopted this kind of legislation to give the State forester an opportunity to modify State contracts. The State of Washington and the State of California have both done likewise, is that correct?

Governor **Atiyeh**. I believe the State of Washington has. I don't know about California. You may know and I don't.

Senator **Hatfield**. I believe the State of California has adopted this legislation for greater flexibility of handling such current problems.

Do you know the record, or what the experience of Washington has been in contrast or similar to the State of Oregon's experience in modifying contracts?

Governor **Atiyeh**. I don't, Mr. Chairman, but I am sure there will be someone that will be able to answer that.

As I indicated in my own testimony, it has been very productive in Oregon. It has provided jobs, it has given relief, and it has returned dollars to the school fund and also to the State department of forestry.

Senator **Hatfield**. You can say unequivocally that with the opportunity to modify contracts, which goes further than merely extending contracts, has a stimulous in creating employment rather than continuing this downhill plunge to unemployment?

Governor **Atiyeh**. Mr. Chairman, that's exactly right. That is accompanied with—and I must at least thank the BLM and the Forest Service for putting up new sales so the companies can deal with that heavy load, that overburden they have at the present time, and also have some logs available so they can enter the market today. One will not do it all by itself, just the present sales, because you might put those sales out but there isn't going to be anybody to bid them. They are going to be gone.

Senator **Hatfield**. So if you can't perform a contract, you cannot sustain employment, you cannot sustain revenues coming to the local government, you cannot sustain revenues coming to the Federal Government. It's that simple.

Governor **Atiyeh**. It's that simple. Absolutely.

Senator **Hatfield**. Regardless of what kind of bias or prejudice you may have toward timber operators, as obviously some people do. That's not withstanding that particular bias. You still cannot force their performance if the economics of the marketplace do not provide that ability to perform a contract.

Governor **Atiyeh**. Absolutely. When you speak of contract, Mr. Chairman, what I feel, for myself as I have observed this industry, is that the operators that have bid on the timber was depending upon national policy of homeownership; was depending on the natural sources of financing, and all of a sudden we feel the contracts have been changed and we weren't a party to the change.

Then they are saying, well, you hang out to dry anyway. I think that is grossly unfair.

Senator **Hatfield**. Let's assume that these contracts are valid contracts and there is obligation to perform the contract. The marketplace does not provide that opportunity, so we turn these contracts over to the Justice Department to sue. That would be a logical, legal step to those that are so concerned about maintaining the viability of the contract—which I support that concept, of course. But let's turn them over to the Justice Department. So, what happens then? Do we get production cranked up? Do we get employment?

Governor ATIYEH. Not a bit.

Senator HATFIELD. Do we get revenues?

Governor ATIYEH. Not a bit, and I want to tell you a story because it crossed my mind. Someone I know brought a suit for a million dollars, and the attorney was telling the person who was suing, "If you win, it will be a hollow victory, because you get no money out of it. You can sue for $10 million if you want."

So it doesn't produce anything, either to the treasury or the workforce in the State of Oregon. All it does is devastate further.

Senator HATFIELD. But it gets revenge for that kind of mentality.

Governor ATIYEH. I hope that's not what we are after.

Senator HATFIELD. Isn't that the only thing that comes out of this for people who suggest that kind of course?

Governor ATIYEH. That would be the only motive.

Senator HATFIELD. I wonder if, for the record, you could give us a listing of the position of the Western Governors Conference and the breakdown as between the various States?

Governor ATIYEH. I can only by the survey we made of what we thought were the States that might be interested, Mr. Chairman. We find Alaska, Washington, California, Utah, and Oregon. I mentioned that there were five out of the seven, and those that are not supporting at this time would be Idaho and Montana. Now, that's to our knowledge at the present time.

I know your relationship has been very good with Senator McClure as you've tried to work with him, and I see no reason why we can't continue that effort. But that's as I see it at the present time.

Senator HATFIELD. At the latest estimates of housing starts that came to us, you indicate there will be an increase in the demand for softwood lumber and softwood plywood in 1983, and 1984 the demands will increase rapidly and back to significantly higher levels than the present.

Do you have any indications of this kind of trend in the State of Oregon as it relates to production or inventories?

Governor ATIYEH. I have no doubt that the demand is there. About a week ago I went to what they call the Street of Dreams. They build new homes and invite people to come and look at them. There was a tremendous number of people there. It's a very short street of homes. I suppose there is about a dozen. Three had sold. The demand is there. However, we need to do a lot of things to get interest rates down, and a lot of other things in order to make it possible for people to buy those homes.

Senator HATFIELD. I think your observation is correct. The demand is there to some degree, because the Canadian imports have increased by about 20 percent.

Governor ATIYEH. People want it.

Senator HATFIELD. So while the States in various regions may be bickering about what kind of help is needed or not needed, the market is being filled increasingly by Canadian imports.

Governor **Atiyeh**. We are hurting ourselves. I kind of thought one time that it would be a good idea—maybe this is not the place to be talking about these kinds of things—Oregon should become an emerging country, get a seat on the U.N. and you get all kinds of help from Congress. I'm sure I really want to do it, but it sounds good.

Senator **Hatfield**. That idea has been expressed before by other States. It could catch on.

Again, I want to express my deep appreciation for your presence here today. It has added immeasurably to hour hearing. I'd be very happy to have you come up here and join the committee if you wanted to hear some of the other testimony.

Governor **Atiyeh**. I will listen to it from back there because I may go to sleep; It's been a long night. I won't go to sleep, but I think it might be better if I went back there, and then when I have to leave—which I will eventually have to do—I won't be disruptive.

Senator **Hatfield**. Whenever you have to leave, feel free to do so. You are certainly welcome to remain.

Governor **Atiyeh**. Thank you very much for this bill.

Senator **Hatfield**. As I indicated earlier, the administration's witnesses that were scheduled to appear at this point in the agenda have requested a delay which has been granted on the assumption that we will support the statement once they do return, otherwise we may just skip them. [Laughter]

Senator **Hatfield**. The next four gentlemen represent the companies I called upon to develop a proposal. These gentlemen have spent many hours looking at the issue, not just from their own company perspectives, they have been unable to reach a solution to a difficult problem and I warmly welcome them today. They represent a variety of the corporate structures and associations in the State of Oregon.

I want to say you are the first of 11 panels we have to complete before noon. I want to make sure you understand the conservation practice we engage here in matters of conserving time as you conserve the resource in your timber management programs.

Mr. **Johnson**. Thank you, Senator. Before I start on my testimony, my name is Bud Johnson. I would like to introduce into the record, on behalf of this panel, a statement in support of the timber industry proposal for a modification of Federal timber sales contracts. This is a comprehensive statement of the industry's problem, and a proposal for dealing with the problem.

It has been developed and is supported by seven associations in the West.

Senator **Hatfield**. I would be happy to receive it for the record.

[The statement follows:]

STATEMENT IN SUPPORT OF A TIMBER INDUSTRY PROPOSAL FOR MODIFICATION OF FEDERAL TIMBER SALE CONTRACTS

Submitted By:

INDUSTRIAL FORESTRY ASSOCIATION, Portland, Oregon

NORTHWEST INDEPENDENT FOREST MANUFACTURERS, Tacoma Washington

NORTHWEST PINE ASSOCIATION, Spokane, Washington

NORTH WEST TIMBER ASSOCIATION, Eugene, Oregon

WESTERN RESOURCE ALLIANCE, Eugene, Oregon

WESTERN TIMBER ASSOCIATION, San Francisco, California

I. Most of the Timber Industry has Formulated a Proposal to Deal with an Important Federal Aspect of the Present Industry Depression.

The timber industry is beset by a worsening depression. Industry associations and companies began considering nearly a year ago whether federal legislation would be both necessary and feasible to alleviate the distress being suffered by many communities, workers and companies. Despite differing perspectives based on such factors as geography, company size and past business practices, most members of the industry have gradually coalesced in the past months in support of a compromise plan. This proposed legislation is designed to save federal expenditures, reserve regional, community and company stability, and avoid a windfall for any particular industry segment.

Not every element of industry is in complete agreement on every point of this proposal. But it is the proposal with by far the greatest support of the largest portion of the industry.

This statement will discuss in detail the condition of the industry and need for legislation, the financial advantages to government of enacting this plan as opposed to taking no action, the evolution of industry near-consensus, and the specific details of the industry proposal as well as views on specific elements of legislation proposed by others.

II. The Timber Industry Depression has Created an Urgent Need for Federal Action to Adapt to New Economic Ground Rules.

A. Industry's Market has Collapsed as a Result of the Plunge in Housing Starts.

The timber industry is in a state of depression caused by broader economic factors beyond the control of the industry. Policies of the Federal Reserve Board aimed at curbing inflation resulted in high interest rates generally and record high home mortgage interest rates in particular. These high mortgage rates, together with other unfavorable general economic developments, have plunged housing starts to their lowest rate since World War II. Because housing is the largest single user of lumber and plywood, the timber industry that produces lumber and plywood has followed housing into collapse.

According to the U.S. Forest Service, softwood lumber production has fallen from 31.3 billion board feet in 1978 to 23.6 billion board feet in 1981. Softwood plywood production has fallen from 19.5 billion square feet to 16.1 billion square feet during the same period. Production has continued to decline during the first half of 1982.

B. Industry Production has Fallen Sharply, Causing Mill Closings and Curtailments, and Severe Unemployment and Short Work Weeks.

For a variety of reasons including bulk and high carrying costs lumber and plywood are not inventoried for long periods of time by their producers. Drops in production directly reflect loss of market rather than inventory manipulations.

As a result of production declines, mill closings and curtailments have soared during the past two years, and employment has declined markedly. According to the Western Wood Products Association, between 32,000 and 64,000 of the 102,000 employees in 756 western sawmills have typically been on layoff or reduced work weeks during most weeks of 1982. Between 265 and 428 of those mills have typically been closed or on curtailed operations. According to the American Plywood Association, between 5,000 and 6,100 of the 21,000 employees in 110 western plywood mills have typically been on layoff or reduced work deeks during most weeks of 1982. Between 50 and 65 of those mills have typically been closed or on curtailed operations. Assuming a typical ratio of two indirect jobs for each direct job, that means some 210,000 jobs in the west alone are affected by the industry's depression.

C. The Loss of Market has Pushed Prices Down by as Much as Half in an Industry where Low Prices Do Not Generate Demand.

With the decline in markets for lumber and plywood has come a plunge in the price of these products. According to textbook economics, a drop in sales should lead to a lowering of prices which in turn will fuel new demand that restores sales levels. For lumber and plywood, however, price does not create demand. Rather, demand sets price. Historically, as demand and production increase, so does price, with little curtailment of demand. But as demand and production fall, so also does price, with essentially no creation of new demand. This scenario results because housing construction, which controls lumber and plywood demand, increases or decreases as a result of interest rates, not lumber and plywood prices. Although these prices have some significance in setting the price of a house, they play virtually no role in determining whether that house will be built or not.

Since their high points during 1979, prices for key lumber products have fallen by more than half. Unseasoned Douglas fir 2x4's, for example, an important product from western Oregon and western Washington, sold at $326 in August 1979, but are selling for $140 in August 1982, according to the trade publication Random Lengths. The basic western plywood product, Douglas fir 1/2" CDX, sells presently for $165, down from $225 in August 1979.

D. Costs of Much Raw Material, Established in a Different Economic Environment, Now Are Impossible to Meet as a Result of Plunging Prices for Finished Products.

Western Oregon and western Washington is the single largest source of lumber and plywood in the United States. Although large companies own significant timber acreage in that area, over half of timber is publicly owned, with most of the public portion administered by the U.S. Forest Service. Most companies in the area are heavily dependent on Forest Service timber for their raw material, and many are dependent on one or another source of public timber for 100 per cent of their raw material. The large number of companies in the region breeds significant competition for this timber, which companies must have to remain in operation.

Forest Service timber is typically sold three to seven years ahead of the season during which it actually will be harvested and manufactured into lumber or plywood. During the late 1970s and into the start of the 1980s, companies bid for Forest Service timber in part based on their calculation of what products manufactured from the timber would be worth at the future time of harvest. Government and reputable private economists foresaw a continuation of high inflation, moderate mortgage interest rates, and the entry of the post-World War II baby boom generation into its prime home-buying years. These conclusions added up to a housing boom for the 1980's and high demand for lumber and plywood.

As a result, bids for National Forest timber rose spectacularly. For example, prices for Douglas fir, the principal species in western Oregon and western Washington, soared from $41.90 per thousand board feet in 1970 to $432.20 in 1980, more than a ten-fold increase. In addition to the economic forecasts for the 1980's, bidders were influenced by a feared future shortage of timber resulting from unresolved public policy decisions over how much federal land suitable for timber should be allocated to wilderness or other uses barring timber harvest.

The timber bid to high levels in that different economic climate now comprises much of the timber available for manufacture in the present period of low product prices. Because raw material can typically account for 60 per cent or more of the manufacturing cost in a western Oregon or western Washington mill, the price of much timber now is too high for it to be harvested and manufactured at anything short of catastropic economic loss. In numerous cases, the cost of the raw material alone is higher than the current market value of the finished products without even taking other costs of manufacture into account.

Various estimates by the Forest Service and industry analysts show that as much as 90 per cent of the present volume of timber under contract in western Oregon, western Washington and Northern California is economically unharvestable. In western Oregon, the average delivered pond cost (stumpage price, plus logging and delivery cost as appraised at time of bid) of timber under contract is $469, twice the average market value today for such logs. See Appendix A.

E. The Volume of Stumpage Too High-Priced to Harvest is Widely Distributed and Increasingly Critical as Deadlines for its Harvest Approach.

In western Oregon alone, 39 companies hold 50 million board feet or more of Forest Service timber under contract at average prices per company typically higher than $300 (not including logging or delivery costs). Appendix B lists specific data for this area.

As these contracts begin to approach their final year or two for performance, purchasers increasingly face the choice of whether to default the contract and risk owing a large money judgment, or harvest at a major loss. The Forest Service so far has twice provided for extensions of contract expiration dates, though at some cost to purchasers. Although contracts allow for a no-cost adjustment of the termination date for such events as fire or Act of God, a major change in economic climate is not a qualifying event.

On May 7, 1982, the Forest Service relaxed its extension payment provisions, but still requires payment of interest on the unpaid purchase price of the timber as a condition of extension. For purchasers with reduced or non-existent cash flow, even the payment of interest may result in a decision to default a sale. The timing of contract expiration dates and extensions is such that these decisions will start to come with increasing frequency over the next few months.

F. Legislation is Necessary Now to Broaden the Array of Actions that can be Taken by Purchasers and the Government.

The timber industry is traditionally cyclical. Operators are used to weathering perhaps one bad year in five. But the present depression is unparalleled since the Great Depression of the 1930's, and is totally unparalleled in terms of the mammoth overhang of federal timber contracts that cannot be operated.

Revised economic forecasts for the rest of the decade, based now on recent government policy changes such as concerning inflation and structural changes in the savings industry, make it doubtful whether much of the high-priced timber now under contract can ever be economically harvested.

Clearly the ground rules of the game have changed so markedly that broader possibilities than mere extension of contracts must become available in order for the fundmental adjustment of the industry to these new rules to take place. A significant portion of these contracts should be terminated and the remainder extended without cost. Additionally, the Forest Service should more fully pay the cost of its roads. This proposal is discussed in detail below at Section V.

III. The Industry Proposal Would Save Money for the Government and Benefit Communities, Workers and the Public Interest.

A. The Choice Facing Congress is How to Make the Best of a Disastrous Situation, Not Whether to Preserve Illusory Benefits that In Fact Have Already Disappeared.

The timber industry has been accused by some of seeking a bailout from the federal government for companies that bet and lost. The industry plan, in fact, is not a bailout and is markedly different from relief proposals which have been adopted or discussed for other industries.

The principal money item at issue is the value of the timber under contract. Industry's plan has been portrayed by some as if a portion of the original contract value is being handed back to industry. In fact, the portion of that value which exceeds the present value of the timber has already been lost because of the supervening market forces discussed above. The timber under contract has a nominal value based on the contract prices bid up to several years ago, but that is far in excess of its real value. The difference in values has disappeared--it has not nor would not go to either the industry or the government.

The notion that the government can capture the original contract value simply by enforcing the contracts ignores the realities of the situation. More to the point is what the government can do to minimize its loss and avoid sending good money after bad.

B. The Industry's Termination and Extension Proposal Would Not Cost the Government.

No grants, loans or loan guarantees typical of other relief programs are involved in the industry proposal.

The Office of Management and Budget detailed six major reasons why President Reagan vetoed in late June a bill characterized as a $3 billion bailout for the housing industry. These reasons included: (1) government spending cannot create new jobs, only reallocate existing employment; (2) the bill would create pressure for similar bills for other industries and worsen budget deficits; (3) adding to the budget deficit will aggravate interest rates; (4) new federal programs to channel credit to one segment of the economy will choke off activity elsewhere; (5) a reduced deficit is the best relief for housing; and (6) the housing package is a budget buster with unsupported estimates of its effect. None of these reasons is applicable to industry's termination and extension plan for the general reason that it doesn't call for federal spending.

C. The Government Would be Unable to Collect Damages from Massive Contract Defaults, and Would Trigger Other Adverse Impacts Even if it Tried to Collect.

The argument that the government should stand firm on high-priced timber contracts assumes that the government can recover the original contract price through a combination of resale and damages if the contracts are defaulted. A purchaser who defaults is liable to the government for the difference between the original sales price and the price upon resale of the contract if the latter price is lower. If the resale price is higher, then there are no damages. But in the present economic environment, resales of a contract defaulted for economic reasons would almost certainly bring a far lower price. For example, Douglas fir on the west side of Forest Service Region 6 presently is selling for less than one-fourth what it sold for early in 1980. See Appendix C.

In order to make its case for damages, however, the Forest Service would first have to reoffer the sale promptly and in an essentially identical fashion. Satisfying those two criteria could create other problems, however.

The prompt reoffering of numerous defaulted sales would tend to flood the market with more timber than it would want to absorb. That could force prices artificially low. Since most of the reofferings presumably would be in Region 6, site of the highest-priced existing contracts, there would be potential for regional market dislocation by products produced from such artifically low-priced timber. The Forest Service already has said it would reoffer timber from terminated sales in consonance with its normal sale program and in light of the market's ability to absorb the reofferings. That course would seem likely to produce more revenue for the government than would forced sales into an unwilling market.

Reoffering defaulted sales under their original conditions would require using former contract provisions which were abandoned earlier this year when the Forest Service increased the financial obligations of purchasers. Those changes were intended to reduce speculation in timber. Offering a number of contracts with the old terms could create an unwarranted two-tier sale arena.

Even if sales were promptly resold under the older contract terms, the Forest Service would incur the legal costs and time of trying to win a judgment in court for the contract value lost on resale. Once a judgment was won, the problem would remain of how to collect it. Companies defaulting on sales could well be bankrupt or otherwise out of business by the time any judgment was rendered.

Defaults are also a much worse outcome for county governments, which share in timber revenue to the federal government. Counties would get no share of any default judgment which might be collected, and they would receive less from a forced default resale than they likely would get from an orderly termination resale.

In sum, by standing pat on a harvest-or-default policy, the government could do itself more harm from both a revenue and policy standpoint than if it permitted an orderly termination and resale of a significant portion of the highest-priced sales.

D. Massive Defaults Would Consolidate the Industry in a Manner Harmful to the Government's Longterm Financial Interest and the Public Interest.

The timber industry presently includes numerous independent, privately held companies which compete strongly against each other. Although a few large and sometimes diversified companies in the industry are well known to the general public, the industry is not highly concentrated.

If companies are forced into massive defaults on existing federal timber contracts, however, the result for many will be bankruptcy or other forced exit from the industry. That would tend to consolidate the industry to no public benefit. Less competition in the long run would reduce government revenues from timber over what revenues would be from a more internally competitive industry.

The shutdowns and work curtailments of the present depression have had a devastating effect on many communities. This would be magnified if the shutdowns were permanent. Unlike many industries which cluster in large metropolitan areas, the timber industry has many of its facilities in small communities which have little or no other economic base. A mill closing can mean the death of such communities, leaving residents jobless and with property losses that can wipe out their lifetime savings.

E. There is Nothing Unique About Parties to a Contract Modifying the Contract when Unforeseen Circumstances Arise.

Government's relation to timber companies in this situation is much like that of another private party in a routine business arrangement. It is not unusual for a contract to be changed when events arise which were not expected when the contract was signed. Government is more frequently the purchaser than the seller in contracts. Terms often are changed in longterm procurement contracts when unexpected situations arise. But the principle should be no different here where government happens to be the seller and it is to the parties mutual advantage to work out an orderly change rather than stand by a chaotic status quo.

IV. The Timber Industry Has Negotiated at Length to Develop a Proposal That Does Not Benefit One Segment of the Industry Alone at the Expense of Others.

A. Industry First Began Discussing Contract Terminations in Autumn 1981.

In late 1981, it began to become apparent that the timber industry was suffering more than its typical one-year down cycle. Some members of the industry from western Oregon began exploring whether allowing termination of federal timber contracts might be the best way to resolve that clearly was getting out of the ordinary. Reps. James Weaver and Les AuCoin of Oregon introduced separate contract termination bills, and hearings were held in Chairman Weaver's House Agriculture forests subcommittee.

B. A Western Industry Proposal Evolved Under the Auspices of Senators Hatfield and McClure.

Early in 1982, Sen. Mark Hatfield of Oregon suggested one means of helping Oregon mills beset by high raw materials costs and counties plagued by declining timber revenues: roll back the contract price of timber on the Bureau of Land Management's O&C timber lands in Oregon. Counties apparently believed this would be the quickest route to increasing timber harvests so that county revenues would rebound.

The notion of a benefit only for companies operating on the O&C lands was opposed by operators in the inland area of the west, who expressed their views to Sen. James McClure of Idaho. Sen. Hatfield and Sen. McClure discussed the matter. They ultimately oversaw the formation of an industry committee from Oregon and Idaho which they asked to return with a proposal for contract modification which both sides could agree on.

This eight-member committee met several times in Washington D.C. and in the west, as did executives from several of the timber industry associations based in those regions.

Participants recognized that any significant program would have to effect more than just BLM contracts in order to avoid benefitting only one segment of the industry. The BLM sells approximately one-tenth as much timber in its Oregon operation as the Forest Service sells nationally. While the Oregon operators favored a program permitting unrestricted termination of contracts, the Idaho operators expressed concern that this would give a big market advantage to operators in the higher-priced areas, where a termination would be worth more than in low-priced areas such as Idaho. The Idaho operators also said their bigger problem during the industry downturn was having to pay more of the share of building roads to be included in the permanent National Forest

Road System. The elimination of the "ineffective purchaser road credit" was both needed and justified in principle as a source for relief.

The committee ultimately reported to Sens. Hatfield and McClure and at a meeting with the senators, completed work on a three-point program for industry legislation. The three elements would entitle each operator to:

(1) terminate federal timber sale contracts covering approximately 40 per cent of the operator's volume under contract;

(2) Extend for five additional years without financial penalty the expiration date of any contract not terminated; and

(3) Receive full purchaser road credit without regard to the price of timber in the contract under which the road was built, with such credit to be transferrable and applicable anywhere in the National Forest System.

The working out of details and drafting of legislative language embodying this proposal then began within industry. During both the negotiation of the three major points and the evolution of details, it was apparent that while virtually no one believed this proposal would have been his personal first choice to most benefit his company, it was a reasonable compromise among divergent views and industry situations that the greatest number could accept and endorse it as providing the highest degree of benefit under these different circumstances to the lumber community.

C. Industry in the West Made Concessions to Concerns Voiced by Industry in the South, but a Difference on One Point has Forestalled General Industry Agreement on the Proposal to this Point.

The western industry draft was generally circulated. Some operators in the south voiced concern that any large volume of terminated timber might reenter the market in addition to the regular Forest Service sales program. This, they feared, would lead to abnormally low timber prices in the west and result in market dislocation at the expense of the south. In light of statements from the Department of Agriculture that terminated volume would be reoffered as part of the regular sale program, the west did not believe the south's fears would be realized.

The south, however, proposed that any legislation include some additional limitation on timber sales in the west to insure against market dislocation. The west indicated it would not object to legislative direction that resales be part of the regular sale program. The south suggested a precise board-feet limitation on sales in Forest Service Region 6 during fiscal years 1983 and 1984. The two sides sparred for a time over different numerical limitations and whether they should apply to all of Region 6 or only to the west side of Region 6--western Oregon and western Washington. Ultimately, they could not agree on a numerical sales limitation.

Although the west was willing in the spirit of compromise to accept a fairly strict numerical limitation, the west is very concerned that a limit set now on sales in 1983 and 1984 could artifically constrain raw material supply later in the 1980's. In light of the inability to agree on a number, the proposed industry bill reverts to the more general form of limitation on resales, which the west believes adequately protects against market dislocation.

D. The Industry Proposal Includes Compromises Developed with the Administering Agencies and Congressional Staff Members.

During the course of drafting its proposals, industry worked closely with the staff of Senator Hatfield, which in turn involved the Forest Service, Bureau of Land Management, and legislative counsel of the Senate. Although Senator Hatfield ultimately introduced legislation not proposed by industry, many of the results of the consultations with his staff and the others are reflected in the industry proposal.

V. The Industry Believes its Proposal Best Meets the Needs of the Federal Government, Local Communities and their Governments, Workers, and Businesses.

The text of the industry proposal is enclosed with this statement and is formally submitted for the record and for consideration of the Committee in its markup of legislation.

A. Purchasers Should be Entitled to Terminate Approximately 40 per cent of their Federal Timber Under Contract.

Section 1 of the proposal authorizes the Secretaries of Agriculture and the Interior to terminate contracts for the purchase of timber which were bid prior to January 1, 1982. Section 2 mandates and sets the limitations on the termination program, and Section 6 requires prompt implementation. Provisions of the termination program include as follows:

1. Timing.

The Secretaries would be directed to publish procedures implementing the program within 30 days after enactment of the Act. Purchasers then would have 45 days in which to file written requests for terminations of contracts. Contracts which otherwise would expire after enactment but before implementation of the program would be preserved for participation in the program. The condition of the industry makes rapid action highly important, thus the strict time limit for getting the program underway. Purchasers would have to make their decisions promptly as well, so they could not have the opportunity for extended speculation over whether a sale should be held or terminated.

2. Volume to be Terminated.

Purchasers would be entitled to terminate 40 per cent of their timber volume under contract with both Secretaries as of April 1, 1982. Because it is highly unlikely that any combination of terminated sales would total exactly 40 per cent of volume under contract, purchasers could "round up" their terminated volume by terminating one additional sale so long as the total volume terminated including the additional sale did not exceed the 40 per cent limitation by more than 10 million board feet. The one additional sale would have to be more recently bid than any of the other sales terminated by the purchaser.

Small businesses holding only one or two sales might find that they could not terminate a sale under the 40 per cent limitation. Therefore, an alternate termination entitlement of either 15 million board feet or one contract is provided.

3. Qualifying Date of Sales to be Terminated.

To be eligible for termination, a sale would have to have been bid prior to January 1, 1982. Beginning in 1982, the agencies began to offer a number of short-term sales in an effort to bring more realistically priced timber onto the market. These more recent sales would not be eligible for termination, although, as noted above, sales bid prior to April 1, 1982 would be used in calculating a purchaser's volume of termination entitlement.

4. Condition of Sales to be Terminated.

Sales on which no harvesting has taken place could only be terminated in full. A purchaser could not turn in one part of a sale while retaining another part.

Sales on which partial harvesting had taken place could be terminated only after work was completed on identifiable units or other logical portions of the sale as determined by the Secretary.

The Secretary could refuse to terminate the contract of a partially cut sale if he determined that remaining unharvested units were not representative of the entire contract area in terms of species and logging methods.

Partially cut sales must be eligible for termination or else the termination program will be too limited in its practical application. At the same time, the Secretary must be given authority to reject termination where he finds a purchaser has taken the cream from a sale area and left only the skim milk.

5. Costs.

A terminating purchaser would be required to pay a termination fee of $3 per thousand board feet of terminated volume. This payment would cover the cost of reoffering the sale and would be in lieu of any damages, penalties or other claims.

The $3 charge is based on cost determinations made by the Forest Service that it will cost $1 per thousand board feet to reoffer an untouched sale and $6 per thousand to reoffer a partially cut sale. A termination charge formula is considered much more administratively efficient than trying to calculate the actual reoffering costs of each sale.

6. Road-Building Requirements.

The Secretary could require a terminating purchaser to complete any roads specified in a contract and to deck the right-of-way timber cut during such road building. This requirement is designed to insure that the termination of a sale would not block access to another sale which is dependent on a road that was to be built in the terminated sale. The decked right-of-way timber could be sold by the agency to a willing buyer.

7. Road Credits from Terminated Contracts.

Purchaser road credits remaining on a Forest Service sale after setoff against amounts owed by the purchaser to the Secretary of Agriculture could be transferred to other contracts held by the purchaser, retained on account with the Secretary by the purchaser, or transferred to another party with all rights. Subsection C below more fully discusses the industry's purchaser road credit proposal, which this provision implements as to terminated contracts.

A purchaser terminating a contract with the Department of the Interior who had completed roads under that contract would be credited, after setoff, for the value of the roads as set in the contract appraisal allowance. That credit could be transferred to other contracts with the Secretary of the Interior held by the purchaser, retained as a credit with the Secretary, or transferred to another party with all rights. This would reimburse the purchaser for value provided to the Secretary without consideration. Normally, a bidder for an Interior sale pays the cost of the road but takes that cost into account in making his bid. Thus, he is actually paid for the road through the value of the harvested timber.

8. Limitation on Resales of Terminated Timber.

Terminated Forest Service contracts would be resold only as part of the agency's normal sale program. This is intended to prevent flooding of the timber market with sales in excess of the normal sale program, and any possible regional dislocation that might result.

9. Eligibility for Bidding on Resales.

Terminating purchasers would be eligible to bid on the resale of their terminated contracts.

B. Sales Not Terminated Should be Extended by an Additional Five Years Without Financial Penalty.

Section 1 of the proposal authorizes the Secretaries to extend timber sale contracts under the program mandated in Section 3. The provisions of the extension program are as follows:

1. Timing.

Implementing provisions would be published by the Secretaries within 30 days of enactment of the Act in accordance with Section 6. Extension requests would be made prior to the termination date presently in effect for the contract. Extensions would be for five years from the termination date in effect at time of enactment of the Act.

2. Contracts Eligible for Extension.

To be extended, contracts would have to have been bid prior to January 1, 1982. Contracts sold this year would not be eligible for extension. To permit extensions of these contracts would defeat the purpose of the short-term sales offered this year. There is no timber volume limit on the aggregate of contracts to be extended. However, contracts involving substantial amounts of timber subject to rapid deterioration could not be extended except with approval of the Secretary. Permitting unqualified extension of such deteriorating timber would waste the resource. Permitting termination of such contracts, however, enables the agency to resell quickly to a willing harvester.

3. Conditions of Extension.

The Secretary may require an extending purchaser to complete road construction required by the contract. This is to avoid access being blocked to other sales as a result of the extension.

Extending purchasers would have to remove 25 per cent of the estimated timber volume by the end of the third operating season of the five-year extension period, or pay 25 per cent of the contract price by the start of the fourth operating season of the extension period. This provision is designed to insure that some work will progress during the course of the extension, and that operators will not leaves sales untouched until the end, then seek further extensions or terminations. This provision reflects a particular concern of industry in the south.

C. As Part of a Program to Meet the Industry Depression, the Forest Service Should More Fully Pay the Costs of Roads Built Under Timber Contracts and Designed for Inclusion in the Permanent National Forest Road System.

On many timber sales, roads must be constructed in order to provide access. The Forest Service requires roads built to be adequate to log the balance of the timber adjacent and tributary to the road but not included in the sale, and for future management of the land, as well as such non-timber uses as hunting, fishing, and other outdoor recreation activities. These are designated for inclusion in the permanent National Forest Roads System. Such permanent roads are built to higher standards than would be necessary for the specific timber sale. Therefore, when the timber purchaser builds a permanent road for the Forest Service, he is given a credit for those construction costs. The purchaser's position is theoretically similar to that of any contractor building a federal highway--he provides a benefit to the government and gets paid for it. Rather than receiving a cash payment, however, the timber purchaser receives a credit which he can apply against certain timber he harvests.

A problem with purchaser road credit is that there are many instances where the credit can never be taken, or can be taken only after significant time delay. The result is that the purchaser is in some cases donating part of the road to the government, and in other cases is providing the equivalent of an interest subsidy to the government.

So-called "ineffective" purchaser road credit arises when the value of timber on a sale in excess of the statutory base rate is less than the estimated cost of the road construction required under that sale contract. The base rate is a portion of the timber value which must be paid in cash, not credits. The remaining value can be paid in purchaser road credits. But credits in excess of the remaining value presently are valueless.

Sales whose stumpage price escalates or de-escalates based on the market may have originally had adequate stumpage value to absorb road credits. But in a market decline such as now, the stumpage value may de-escalate below the amount needed to absorb road cost, and may require cash repayment in lieu of road credits already used which have now been transformed from effective to ineffective.

"Effective" purchaser road credits can be used to pay for timber not only from the sale where the road was built, but for any other sale in the same National Forest. If a purchaser has more than one sale operating in a suitable sequence in the same National Forest, he ideally can utilize his credits soon after they are earned. But in other situations, the purchaser may be unable to use his credits for perhaps one or two years, thus providing the equivalent of an interest-free loan to the government.

Some purchasers, faced with the knowledge that some of their road credits on a particular sale will be ineffective, bid the price of the sale up to the level where all the credit will be effective. This costs the purchaser nothing, and may provide a cash flow advantage if he has another sale in the same forest on which to use the credit. These cash strategies, however, are somewhat artificial.

Industry proposes that the timber purchaser subsidy to government road building be ended by making all purchaser road credits effective, permitting them to be utilized anywhere in the National Forest System, and making them freely transferable among purchasers. This creates a much greater degree of equity between purchasers and the government, and between different purchasers.

Most sales with ineffective road credits--called deficit sales--typically are east of the summit of the Cascade Range and in the Rocky Mountains, areas where timber prices are lower than in such areas as western Oregon and western Washington. Increasing numbers of sales in California and the west side of Region 6 also are deficit in the present market. Providing relief to purchasers from the subsidization of government roads would importantly help them weather the present timber depression as well as end an unwarranted private subsidy to the United States. Operators in the inland area will be less helped by contract termination than operators in high-priced areas, so this element of the industry proposal would significantly balance the benefits of legislation.

The industry proposal would make effective the ineffective purchaser road credits earned under contracts still in effect, and would make all future road credits effective.

Some opponents of the purchaser road credit proposal argue that it would make marginal timber sales in the inland area more attractive to operators and thus would increase the development of presently roadless areas. Industry believes, however, that there are likely to be fewer roads built in roadless areas of the inland region because the government will have to, in one way or another, more fully pay the cost of these roads.

D. By Exercising the Termination and Extension Entitlements Proposed, a Typical Western Oregon Company Would Break Even Financially Through Most of the Rest of the 1980's.

The industry's proposed 40 per cent/60 per cent division between terminated timber volume and extended volume provides a average western Oregon operator with an apparent opportunity to break even by the end of the decade on timber retained with extensions. The chart attached as Appendix D contains supporting calculations.

Reaching a break-even point in 1989 assumes that an operator terminates his highest-price timber and cuts most of his extended volume in the final two years of the extension period. The calculation further assumes the assistance of a 7 per cent inflation rate. The operator is assumed to make a 10 per cent profit on all new purchases of timber and to apply this profit against losses incurred on the extended timber. If the inflation rate were 10 per cent, the break-even point would be reached in 1987--still five years from now.

E. Some Jobs Would be Restored by the Industry Proposal, and Many Other Jobs Would Be Poised for Quick Restoration When Markets Improve.

It is important to remember that any form of contract modification, whether it be termination, extension or price rollback, cannot in and of itself create additional markets for lumber and plywood. What modification can do is enable operators to retain their share of the present depressed markets as opposed to losing further market share or leaving the market entirely due to business failure. Moreover, contract modification will enable companies to promptly increase their production as markets revive.

The industry's proposed terminations and extensions both provide for prompt building of roads at the discretion of the Secretaries. These roads would not be built if contracts were defaulted until the timber was reoffered and resold. Thus, the industry program will more quickly create and retain road-building employment than would taking no action and inducing massive defaults.

VI. Other Legislative Proposals Contain Shortcomings as Compared To the Industry Proposal.

A. The Hatfield Bill Offers A Generally Suitable Framework for the Industry Proposal, But Contains Two Provisions Not Favored by Industry.

The Hatfield Bill, introduced by Senator Hatfield as S. 2805 and by Representative Weaver as H.R. 6913, broadly authorizes the Secretaries of Agriculture and the Interior to modify timber sales contracts bid prior to January 1, 1982. It specifically lists as permissible modifications the termination, extension, or purchase price modification of such contracts. The Secretaries are directed to publish procedures for the modification of contracts within 30 days of enactment of the Act.

This bill provides a suitable framework for the industry proposal. The specific provisions of the industry proposal should be included in S. 2805 and H.R. 6913, however. In their present very general form, virtually complete discretion is left to the agencies. In light of the delicate balance among various regions, communities and businesses who are vitally concerned with this issue, it is preferable for Congress to more specifically direct the agencies what actions they should take. Even in the industry proposal, much implementing detail is left to the agencies' discretion. But the broader policy parameters should be spelled out in legislation.

In addition to the broad issue of how much discretion to leave to the agencies, two specific provisions of S. 2805 and H.R. 6913 are of particular concern to industry.

Section 2 authorizes the Secretaries to act only "upon a showing of economic hardship by the private contracting party". It is not specified whether this is to be economic hardship relating to the specific timber contract at issue, or whether it is to be economic hardship relating to the purchasing operator as a whole. If the hardship relates only to the specific contract, industry's concern is less, since there would be no seek termination or extension of the contract if it were economically viable to operate. If the hardship is to relate to the entire company, however, industry would be gravely concerned about the kinds of tests to be set and the inequities among purchasers which would likely result. In the course of developing its proposal, industry considered whether hardship qualifying tests should be set and concluded there was no equitable measure that could be practically used. Company size was not proper, because some large companies as well as small are in poor condition. Volume of timber under contract is not relevant. Profit or loss for the most recent period is not an accurate indicator because it is unrelated to the immediate future problems of the timber volume under contract and its price. A portion of the industry depression problem is faced by company's who have no timber under contract because they were frozen out by high bidding in previous years. These companies could get inadequate access to resale of terminated volumes if companies in their vicinity were judged to have no economic hardship and thus could not terminate sales. A company's relative hardship position also could change depending on whether its nearby competitors qualified and were able to terminate sales, thus sharply reducing their price of raw material while the supposedly healthier company was left with only high-priced raw material. Given the relatively short time left before this program should be implemented in order to be effective, the time required to develop any economic hardship test would be a further problem.

Industry also has strong doubts about rolling back the prices of existing contracts. The goals of price rollback and termination are the same: to make more timber available to the present market at prices that reflect the present market. Rollback would achieve this by lowering the prices for existing contract holders. Termination would achieve this by reoffering terminated sales to any purchaser under bidding that would reflect the current market. The industry has been criticized for creating its own problem due to high bidding that took place in the late 1970's and start of the 1980's. Rolling back prices for the winning high bidders of that period would grant them a benefit while providing no opportunity to reenter the market for purchasers who stayed out of that bidding. Termination would start the game over again for everyone equally under the new ground rules of the present market, favoring neither past bid winners nor companies who forewent those price levels. Industry believes, therefore, that terminations are a more equitable approach to the goal of putting timber back on the market at today's market prices.

B. The McClure Extensions Bill Offers One Form of Immediate Relief But Only Postpones the Problem.

Legislation introduced by Senator McClure as S. 2818 would provide only for a five-year extension of timber sale contracts. Extensions alone serve only to postpone the immediate crisis deadlines caused by the timber depression, but do not offer a solution reasonably likely to enable operators to emerge from the depression in minimally acceptable business condition.

A table compiled by a wester Oregon lumber company and attached as Appendix E illustrates how extensions are insufficient by themselves. From 1977 through the first half of 1980, market prices for a benchmark lumber commodity remained higher than, and rose in general accord with, the cost of the product, including stumpage, logging cost and cost of manufacture.

Based on Federal timber sales under contract in western Oregon, the product cost continues to rise steadily through 1986. But the drop in product price from mid-1980 to date leaves the price well below the cost of manufacturing from present federal contracts. Thus, the product can't be manufactured except at great economic loss. Even assuming a 15 per cent annual increase in product price (well above projected inflation rates), the price won't come near catching up with costs. Extending contracts enables producers to put off cutting the high-priced timber, but doesn't leave sufficient time for the price to catch up to costs. As discussed above, 60 per cent extensions coupled with 40 per cent terminations would allow a typical operator to break even by near the end of the decade. But 100 per cent extensions and no terminations would put the break-even point off until well into the 1990's or perhaps even the turn of the century, depending on the inflation rate.

Forcing operators to retain all present contracts, even with extensions, hinders their ability to purchase present timber supplies at prices reflecting the current market. It also reduces the selection of timber available to the agencies to offer in expectation of providing realistically priced raw material.

VII. CONCLUSION: For the Reasons Stated Above, Congress Should Enact the Proposal Developed by Industry.

APPENDIX A

REMAINING VOLUME UNDER CONTRACT BY PRICE
FOREST SERVICE - REGION 6

Period Ending 3/31/82

WESTERN OREGON

MBF	%	Stumpage Price Range $/M	Delivered Pond Cost $/M
35,954	0.5	N/A	0
456,801	5.8	1-100	239
461,467	5.9	101-150	285
651,183	8.3	151-200	317
745,887	9.5	201-250	373
1,043,079	13.3	251-300	411
1,106,783	14.0	301-350	467
1,030,418	13.1	351-400	512
961,624	12.2	401-450	563
658,876	8.4	451-500	600
386,588	4.9	501-550	661
90,903	1.2	551-600	709
73,172	0.9	601-650	779
46,770	0.6	651-700	830
7,270	0.1	701-750	939
103,901	1.3	751+	1,103
7,860,676	100.0		469

EASTERN OREGON

MBF	%	Stumpage Price Range $/M	Delivered Pond Cost $/M
31,505	0.9	N/A	0
1,189,649	32.7	1-100	199
502,786	13.8	101-150	251
572,565	15.8	151-200	307
576,268	15.9	201-250	341
396,725	10.9	251-300	378
193,416	5.3	301-350	418
145,060	4.0	351-400	456
25,700	0.7	401-450	516
0	-	451-500	0
0	-	501-550	0
0	-	551-600	0
0	-	601-650	0
0	-	651-700	0
0	-	701-750	0
0	-	751+	0
3,633,674	100.0		290

Source Data: Timber Data Co. from USFS
Compiled by: W.R.A., 5/3/82

APPENDIX A (cont.)

REMAINING VOLUME UNDER CONTRACT BY PRICE
FOREST SERVICE - REGION 6

Period Ending 3/31/82

WESTERN WASHINGTON

MBF	%	Stumpage Price Range $/M	Delivered Pond Cost $/M
26,352	0.7	N/A	0
992,706	24.9	1-100	231
568,075	14.3	101-150	263
707,249	17.8	151-200	323
432,125	10.8	201-250	366
445,424	11.2	251-300	406
290,401	7.3	301-350	444
325,939	8.2	351-400	524
84,136	2.1	401-450	529
39,427	1.0	451-500	599
33,500	0.8	501-550	622
37,500	0.9	551-600	664
0	-	601-650	0
0	-	651-700	0
0	-	701-750	0
0	-	751+	0
3,982,834	100.0		344

EASTERN WASHINGTON

MBF	%	Stumpage Price Range $/M	Delivered Pond Cost $/M
12,516	1.0	N/A	0
723,928	56.8	1-100	201
337,891	26.5	101-150	254
146,661	11.5	151-200	297
34,810	2.7	201-250	379
6,400	0.5	251-300	343
12,300	1.0	301-350	424
0	-	351-400	0
0	-	401-450	0
0	-	451-500	0
0	-	501-550	0
0	-	551-600	0
0	-	601-650	0
0	-	651-700	0
0	-	701-750	0
0	-	751+	0
1,274,506	100.0		234

Source Data: Timber Data Co. from USFS
Compiled by: W.R.A., 5/3/82

APPENDIX B

TIMBER VOLUME UNDER CONTRACT
BY PURCHASER

Western Oregon
Region 6 - U.S. Forest Service

As of March 31, 1982

PURCHASER	VOLUME UNDER CONTRACT (MMBF)	AVERAGE MERCH. STUMPAGE $ PER MBF
A	623	346
B	429	212
C	316	261
D	299	322
E	281	352
F	280	334
G	276	306
H	268	358
I	240	297
J	236	470
K	225	299
L	212	375
M	195	274
N	188	320
O	182	384
P	176	298
Q	167	364
R	150	341
S	143	368
T	136	278
U	133	320
V	132	304
W	130	330
X	116	192
Y	113	378
Z	108	387
AA	105	448
BB	103	391
CC	101	594
DD	101	274
EE	99	280
FF	86	434
GG	85	252
HH	84	253
II	83	386
JJ	72	180
KK	62	247
LL	56	287
MM	51	271

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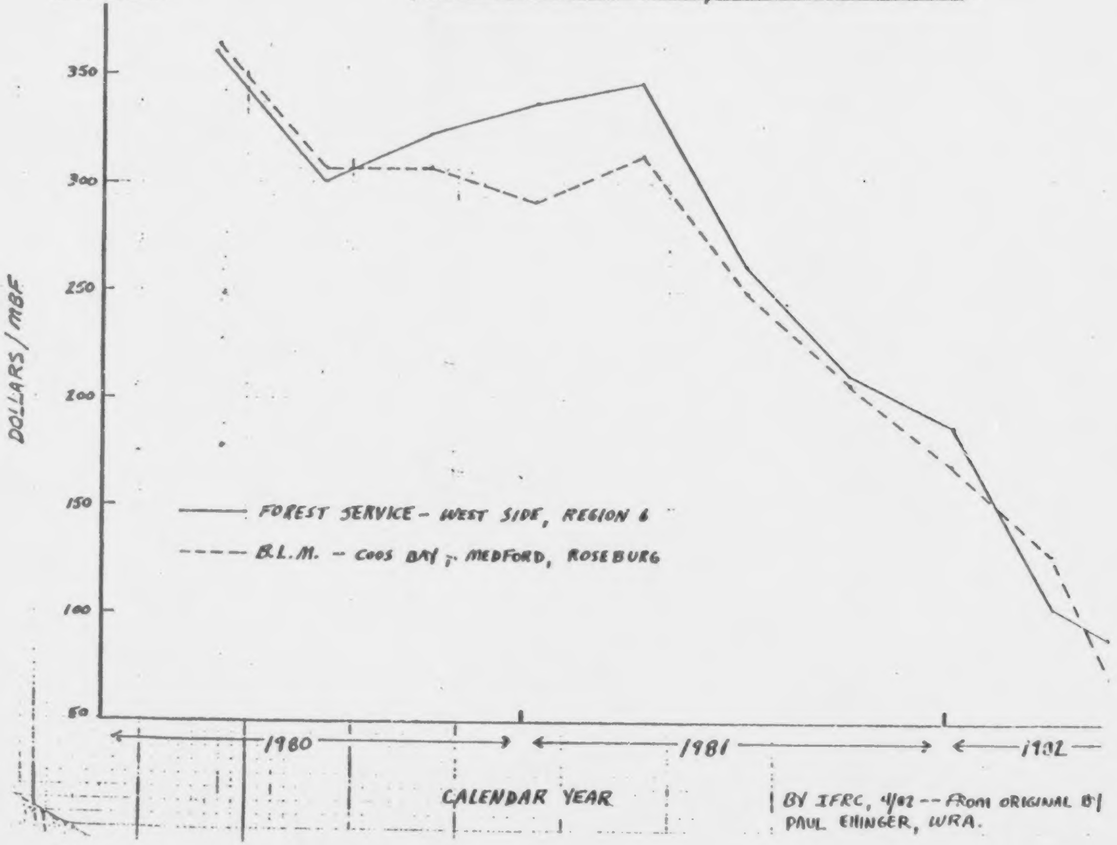
* Names have been removed, but each letter represents an actual, separate company.

Source Data: Timber Data Co. & U.S. Forest Service

June 1982

APPENDIX C

QUARTERLY AVERAGE BID PRICES, FEDERAL TIMBER SALES



BY IFRC, 4/82 -- FROM ORIGINAL BY PAUL EHINGER, WRA.

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APPENDIX D

CALCULATION ON PROJECTED AVERAGING OF STUMPAGE

WESTERN OREGON
REGION 6 - U.S.F.S.

YEAR	AVERAGE MERCH. MARKET LOG COST (INCREASE 7%/YEAR)	AVERAGE MERCH. MARKET LOG COST (INCREASE 10%/YEAR)	10% PROFIT ON LOG COST (INCREASE 7%/YEAR)	10% PROFIT ON LOG COST (INCREASE 10%/YEAR)	LOG COST W/40% TERMINATION (LOGGING COST INCR. 5%/YEAR)	LOSS/M (COL.5 LESS TOTAL COL. 1 & 3) (INCREASE 7%/YEAR)	LOSS/M (COL.5 LESS TOTAL COL. 2 & 4) (INCREASE 10%/YEAR)	% THAT CAN BE TERM. FOR BREAKEVEN ON ANNUAL VOLUME CUT (INCREASE 7%/YEAR)	% THAT CAN BE TERM. FOR BREAKEVEN ON ANNUAL VOLUME CUT (INCREASE 10%/YEAR)	ACCUM. % (INCREASE 7%/YEAR)	ACCUM. % (INCREASE 10%/YEAR)
1982	$230	$230	$23	$23	$380	$(127)	$(127)	--	--	--	--
1983	246	253	25	25	385	(114)	(107)	18%	19%	18%	19%
1984	263	278	26	28	390	(101)	(84)	20%	25%	38%	44%
1985	281	306	28	31	396	(87)	(59)	24%	34%	62%	78%
1986	301	337	30	34	402	(71)	(31)	29%	52%	91%	130%
1987	322	371	32	37	408	(54)	(0)	36%	100%	127%	230%
1988	345	408	34	41	414	(35)	--	48%	--	175%	
1989	369	449	37	45	420	(15)	--	69%	--	244%	

NOTES

1. Logging cost assumed to be $100.00/M for increases in Column 5.
2. At 40% termination, 180% of one year's cut will remain assuming a 3 year timber supply. Averaging complete when in Columns 10 and 11 the accumulated % passes 180%.

Calculated by: Western Resource Alliance
6/24/82

A BILL

To provide for the orderly termination or extension of certain contracts for the sale of federal timber, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled,

Sec. 1. The Secretary of Agriculture for National Forest System lands and the Secretary of the Interior for public lands are authorized to--

(a) terminate contracts for the purchase of timber which were bid prior to January 1, 1982, and for which the conditions in section 2 are met; and

(b) to extend contracts under the conditions stated in section 3.

Sec. 2. (a) (1) A purchaser may terminate a contract pursuant to this Act if the purchaser--

(A) files a written request for termination within 45 days following the concurrent publication of procedures by the Secretaries pursuant to Section 6, specifically identifying each contract for which termination is requested;

(B) agrees to pay the Secretary holding the contract, within 30 days of billing, a sum equal to $3 per 1,000 board feet or equivalent measure for the costs which will be incurred by such Secretary in terminating such contracts and for reoffering the timber terminated for resale, and

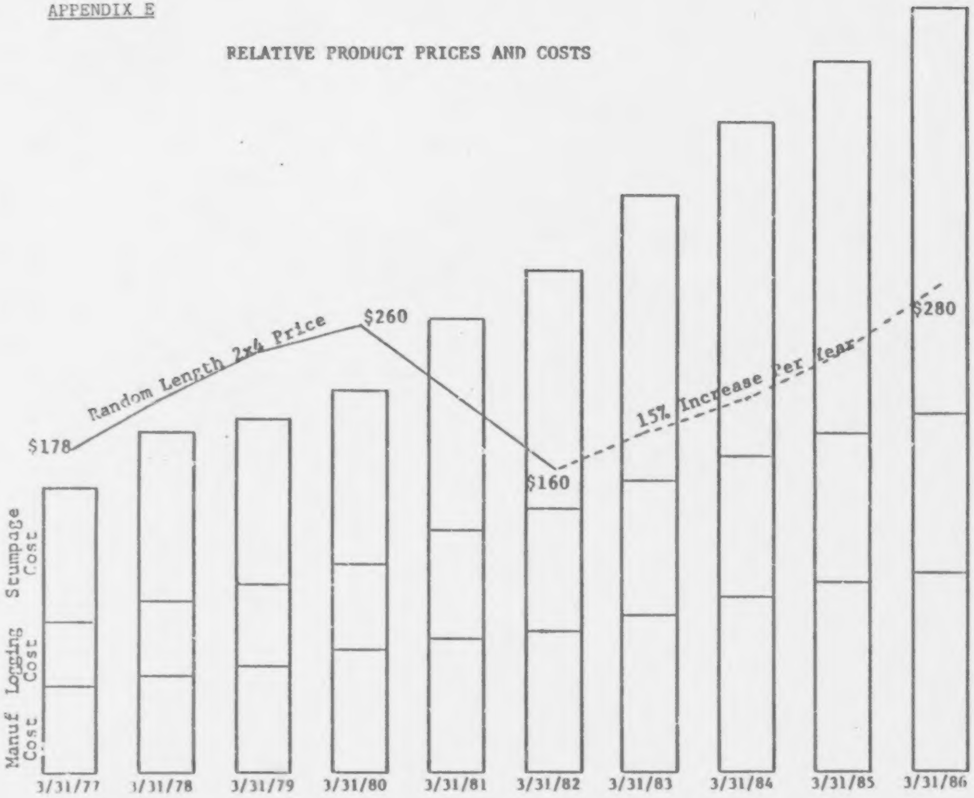
(C) agrees to release any claim against the United States arising out of or connected with each contract to be terminated.

(D) If a request for termination made pursuant to clause (A) is denied, a written request for alternative contracts may be filed within fifteen days of receipt of notice of denial.

(E) Payment made pursuant to clause (B) shall be in lieu of any damages, penalties, or claims that such Secretary might otherwise assess.

APPENDIX E

RELATIVE PRODUCT PRICES AND COSTS



Notes: 1) Based on USFS & BLM Sales currently under contract.
2) Assumes two-year extensions on BLM & USFS

(2) Contracts to be terminated pursuant to this Act under which no harvest has taken place shall be terminated in full. Contracts to be terminated pursuant to this Act under which harvest has begun, shall be terminated conditionally with the termination becoming final after the purchaser has completed all contractual obligations for the units or a logical portion of a unit on which harvest had begun as determined by the Secretary. All remaining unharvested units covered by contracts also covering such partially harvested units must be terminated. The Secretary need not terminate a contract if he determines that the remaining unharvested units are not representative of all units that were to be harvested on the contract area in terms of species and logging methods.

(3) The Secretary may, in his sole discretion, require the completion of any roads specified in a contract to be terminated and the decking of right-of-way timber.

(4) Purchaser shall be current in all payments and not be in default on a contract at the time of its termination pursuant to this Act.

(5) (A) The volume of timber in contracts to be terminated shall not exceed 40 per centum of the estimated timber volume specified in the purchaser's contracts bid as of April 1, 1982 for timber from National Forest System land and public lands less any volumes cut, removed, and paid for.

(B) In addition to the contracts meeting the condition of subparagraph (A), one contract which was bid prior to January 1, 1982 but after the date of bid of all other contracts to be terminated may be terminated.

(C) The estimated timber volume terminated under subparagraphs (A) and (B) shall not exceed by more than 10,000,000 board feet (or equivalent measure) the 40 per centum limit imposed by subparagraph (A).

(D) Purchasers may, in lieu of the 40 per centum limitation specified in subparagraph (A), terminate contracts having an aggregate volume of up to 15,000,000 board feet or terminate one contract.

(b) (1) For each contract meeting the conditions in subsection (a) the Secretary shall set-off cash deposits, and purchaser credit or the timber sale appraisal allowance for the value of completed roads against the amount payable to the applicable Secretary under subsection (a) (1) (B), applying the cash deposits before the purchaser credit or the timber sale appraisal allowance for the completed roads in the set-off. The Secretary shall provide each purchaser with a statement of account which shall provide an accounting of any set-offs made pursuant to the preceding sentence.

(2) Any cash deposits that exceed the amount payable to the respective Secretary under subsection (a) (1) (B) shall be refunded to the purchaser within 60 days after the termination.

(3) Purchaser credit earned by purchasers of National Forest System timber and shown in the timber sale statement of account described in paragraph (1) that remain after set-off against amounts owed to the Secretary of Agriculture shall, at the purchaser's election--

(A) be transferred to other contracts with the Secretary of Agriculture held by the purchaser;

(B) be retained by the Secretary of Agriculture for future application by the purchaser to other contracts for the sale of National Forest System timber; or

(C) be assigned to another party with all rights attributable.

(4) The timber sale appraisal allowance for the values of completed roads made in connection with the sale of timber from public lands described in paragraph (1) that remain after set-off against amounts owed to the Secretary of the Interior may, at the purchaser's election--

(A) be transferred to other contracts with the Secretary of the Interior held by the purchaser;

(B) be retained by the Secretary of the Interior for future application by the purchaser to other contracts for the sale of timber from public lands; or

(C) be assigned to another party with all rights attributable.

(5) Purchaser shall be billed for any remaining portion of the amount payable to the Secretary after the set-off in paragraph (1), and purchaser must pay that amount prior to termination of the contract.

(c) A purchaser granted termination of a contract pursuant to this Act shall not, if otherwise eligible, be prevented on account of the termination from bidding on any resale of timber included in a terminated contract.

(d) (1) Timber included in any contract terminated by the Secretary of Agriculture under authority of this Act may be reoffered for sale without regard to the annual limitation imposed on costs of construction of forest roads by timber purchasers as specified in the fourth provision of the paragraph entitled "Construction and Land Acquisition" of title II of the Act entitled "An Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1982, and for other purposes", approved December 23, 1981 (Public Law 97-100; 95 Stat. 1405) or to such annual limitations as may be imposed in appropriation acts for fiscal years 1983, 1984, and 1985.

(2) All terminated and/or defaulted Forest Service timber shall be resold in an orderly fashion and be included in the total allowable sales in the fiscal year in which it is offered.

(e) Until the procedures authorized by this Act shall have been in effect for 45 days, no contract that is eligible for termination or extension under this Act shall terminate or be terminated, without the consent or request of the purchaser.

Sec. 3. (a) Termination dates of any contracts for the purchase of timber from National Forest System lands or public lands that were bid before January 1, 1982, shall, without penalty or any payment which may otherwise be required, be extended, at the written request of the purchaser, by the appropriate Secretary for 5 years from the termination date in effect on the date of enactment of this Act, except that the Secretary may require the purchaser requesting such extension to complete all or a portion of the road construction set forth in the contract by a date to be specified by the Secretary.

(b) Any contract with the termination date adjusted under this section shall require--

(1) removal of 25 per centum of the estimated timber volume by the conclusion of the third operating season of the additional period provided by the adjusted termination date; or

(2) payment by the purchaser of 25 per centum of the contract price, including all payments to date under the contract, by the start of the fourth operating season of the additional period provided by the adjusted termination date.

(c) A contract shall not be available for extension under subsection (a) if it involves substantial amounts of timber subject to rapid deterioration except with approval of the appropriate secretary.

(d) On National Forests west of the summit on the Cascade Range of Forest Service Region 6, the transfer of purchaser credits during a contract term adjustment period provided by this section for roads on which construction was not begun prior to the date of enactment of this Act will be limited to transfer to sales purchased prior to the date of enactment of this Act.

Sec. 4. (a) Notwithstanding any other provision of law, amounts paid to and retained by the Secretary of Agriculture under the provisions of this Act shall be covered into the Treasury and shall constitute a special fund, which is hereby appropriated and made available for use by the Secretary of Agriculture in preparing, advertising, offering, and selling timber.

(b) Notwithstanding any other provision of law, the amounts paid to and retained by the Secretary of the Interior under the provisions of this Act shall be deposited in the Treasury to the credit of the appropriations then current and chargeable for the costs of preparing, advertising, offering, and selling timber.

Sec. 5. The last sentence of Section 4 of the Act entitled "An Act to enable the Secretary of Agriculture to construct and maintain an adequate system of roads and trails for the national forests, and for other purposes", approved October 13, 1964 (78 Stat. 1089; 16 U.S.C. 535) is amended by--

(a) striking out "authorized" and inserting in lieu thereof "directed";

(b) striking out "effective";

(c) inserting after "1975" the following: "under a contract not completed by the date of enactment of this Act"

(d) inserting after "same" the following: "or different"; and

(e) striking out all after "purchaser" the third time it appears to the end of the sentence and inserting in lieu thereof: "; where a purchaser exercises an available option to have the Forest Service construct a road, provisions for transfer of any available credit similar to that provided above in this sentence will be made using the engineer's estimated cost of construction in lieu of the agency's estimated cost of purchaser construction."

Sec. 6. The Secretaries shall publish procedures which have the effect of law implementing the provisions of this Act within 30 days after the date of enactment of this Act.

STATEMENT OF E. P. "BUD" JOHNSON, MANAGING PARTNER, C&D LUMBER CO., RIDDLE, OREG.

Mr. JOHNSON. I am the managing partner of C&D Lumber Co. in Riddle, Oreg. Riddle is a typical small western Oregon town almost entirely dependent upon the forest products industry. In this case there are three small sawmills and one medium sized plywood plant. These four fills, along with all other existing mills in the Thousand Valleys of the Umpqua are almost totally dependent on Federal timber for their operations.

There was a nickel mine operating just outside of Riddle employing 600 people until it was closed in May. Now that this mine is closed and the economic base for jobs, income, school taxes, it is totally dependent on the local mills. At this time it is a very shaky base for the survival of a community.

The Johnson family started their first mill in Coos County, Oreg., in the 1880's. Our operations have spanned five generations and managed to put the pieces back together after going broke in 1928. In 1979 we employed over 200 people. Today we employ 80.

We have 12 timber sales contracts totaling 60 million board feet that we purchased prior to January 1 of this year. Not one of those sales is operable today. Operating those sales on today's market, or any foreseeable market, would mean a repeat of our 1928 situation—bankruptcy.

What are the alternatives for the past timber sales that we have under contract. These contracts between the U.S. Government and the lumber operator are no different from any other contract between any two private parties.

Normally when parties realize that a contract is absolutely inoperable, steps are taken to remedy that situation. In this case, it could best be done by a combination of termination, time or price adjustments.

Senator, you chose four people from Oregon to serve on a project of developing an industry position. I was one of those fortunate persons. As a member of this group, I've had the opportunity to hear problems and concerns from people all over our Nation. I understand most of these concerns, and am now even more thoroughly convinced that the most viable option for relief is termination of these timber sale contracts.

There is a consensus nationwide by the majority of the industry that there should be some sort of relief. Next comes the task of defining what is real relief, not just a bandage to the affected companies. At the same time that we identify viable relief for us, we must recognize the concerns in other parts of the Nation.

What happens if no relief is granted? Today I have no alternative except to default on those contracts. The damages incurred through this process would be greater than C&D's total asset value. My situation is very typical of most of the operations in western Oregon, both large and small. The difference is the large operators would suffer severe losses, and their stock values and dividends would take a heavy beating, but they would probably survive. Most small businesses, even those companies that are healthy and financially sound, could not survive.

If the Forest Service followed the pattern of immediately reselling all the defaulted timber sales, there could be a dumping of timber into the marketplace with an inelastic demand for the finished products that would create a complete collapse of our present depressed market. One needs to terminate a sufficient volume of timber in the impacted areas to prevent uncontrolled chaos through massive defaults.

Termination of an absolute minimum of 60 percent of the volume along with the additional time to meter in the remaining sales in an orderly manner is the only logical answer. We must have relief and we must have it now. Without this kind of relief I sincerely believe that our industry in western Oregon will become like the steel or automobile or oil industry and be almost totally controlled by a handful of the industrial giants.

Thank you for your interest. If there are any questions, I'd be happy to answer them.

[The prepared statement of Mr. Johnson follows:]

STATEMENT OF E.P. JOHNSON
BEFORE THE
SENATE ENERGY AND NATURAL RESOURCES COMMITTEE
REGARDING: S. 2805 and S. 2818
August 16, 1982 - Washington, DC

Mr. Chairman, my name is E.P. "Bud" Johnson. I am the Managing Partner of C & D Lumber Company, Riddle, Oregon. Riddle is a small community 25 miles south of Roseburg. It is a typical small western Oregon town almost entirely dependent upon the Forest Products Industry; in this case three small sawmills and one medium sized plywood plant. These 4 mills, along with all other existing mills in the "Thousand Valleys of the Umpqua," are almost totally dependent on federal timber for their operations. As one might expect, Riddle's economy rises and falls with the health of the Forest Industry. The families have spent their lives riding the crest of good times and tightening their belts during the slumps. They are solid citizens with their roots well established in the rural small-town atmosphere. They are generally conservative people living here because they prefer this way of life.

There was a nickel mine operating just outside of town employing 600 people until it was recently closed. There have been hard times in the past, but with the combination of the mine and the sawmills, enough income was generated to tide the community over.

Now the mine has closed and the economic base for jobs, income, school taxes, etc., is totally dependent upon the local mills. At this time it is a very shaky base for the survival of a community.

The Johnson family started their first mill in Coos County, Oregon in the 1880's. Our operations have spanned five generations and managed to put the pieces back together after going broke in 1928. C & D Lumber is presently trying to operate only on sales purchased this year where the stumpage prices are more in line with the very limited and fragile market. In 1979 we employed over 200 people; today we employ 80.

We have 12 contracts totaling 60 MMBF which we purchased prior to January 1, 1982, and not one of those sales are operable under today's market. If we chose the most favorable sale from these contracts and ran it through the mill on today's market we would sustain a substantial loss. Operating those sales on today's market or any forseeable market would mean the repeat of our 1928 situation -- Bankruptcy.

What are the alternatives? On the positive side, I must continue to prudently purchase timber on today's market and hope it doesn't completely collapse. This will, hopefully, provide the continuaton of a limited operation in an inelastic market. This will provide jobs on a limited basis.

What are the alternatives for the past timber sales under contract? Again on the positive side, these contracts between the United States Government and a lumber operator are no different from a contract between any two private parties. Normally when both parties realize that a contract is absolutely inoperable, steps are taken to remedy the situation. In this case it could best be done by a combination of termination, time, or price adjustments. All of these factors have been thoroughly explored by Industry representatives nationwide over the past year.

In March of this year, Senator Hatfield chose four people from Oregon to serve on a project of developing an Industry position. I was one of those fortunate or unfortunate persons, whichever it may be.

As a member of the group chosen by Senator Hatfield to develop an industry position on Timber Sale Relief, I have had the opportunity to hear problems and concerns of people from all parts of the country. I understand most of these concerns and am now even more thoroughly convinced that the most viable option for relief is termination of timber sale contracts.

First we heard the concerns of the timber industry in Idaho while negotiating with the industry group that Senator McClure had appointed. In May, after several months of negotiations, the Oregon and Idaho groups, with the leadership of Senators Hatfield and McClure, settled on a compromise position. I want to personally express my thanks to Senator Hatfield and Senator McClure.

During this time many parties in the industry from all parts of the country became interested in the Relief Issue and how it could effect them. We, members of the Oregon committee, Association Executives, and many others from our industry have been to many meetings nationwide to explain our positions and to develop a consensus for the industry.

There is a consensus nationwide by the majority of the Industry that there should be some sort of relief. Next comes the task of identifying the type and amount of relief that is real relief and not just a band-aid to the affected companies. At the same time we identify viable relief for us, we must recognize the concerns in other parts of the nation.

What happens if no relief is granted? As I stated above I had 60 MMBF under contract on January 1, and I could not operate any of those sales on today's market without staggering losses. Today I have no alternative except default on those contracts. Defaulting sales means the government will assess damage. The system normally used to determine the extent of the damage is to re-offer the sale as soon as possible under similar conditions as the original contract; i.e., length of sale, same logging systems, etc. The difference between the original contract price and the new bids plus the cost of reselling the sale would be the Forest Service's measure of damages.

The damages incurred through this process would be greater than C & D's total asset value. Thus a repeat of 1928--a bankrupt mill.

My situation is very typical of most of the operations in western Oregon, large and small. The only difference is - the large operators would suffer severe losses and their stock value and dividends would take a heavy beating, but they would probably survive. Most small business, even those companies that are healthy and financially sound, could not survive such a heavy burden. This would be the demise of a very significant portion of the small widespread Forest Products Industry, a tragedy that the state or nation can ill afford.

If the Forest Service followed the pattern of immediately reselling all the defaulted timber sales there could be a dumping of timber into the market place with an inelastic demand for the finished products that would create a complete collapse of the present depressed market.

We in Oregon would be concerned that such a move would make it impossible to meter in those high priced sales that were not terminated. The scales nationwide are delicately balanced. One needs to terminate a sufficient volume of timber in the impacted areas to prevent uncontrolled chaos through mass defaults.

Thus, termination of an absolute minimum of 60% of the volume along with additional time to meter in the remaining sales in an orderly manner is the only logical answer.

WE MUST HAVE RELIEF AND WE MUST HAVE IT NOW!

We are dealing with the survival of the independent segment of the Forest Products Industry in Western Oregon. Without this kind of relief I sincerely believe that our industry in Western Oregon will become like the steel or automobile or oil industries and be almost totally controlled by a handful of the industrial giants.

This would not be good for our community, our customers, or our nation.

Thank you for your interest in this most important issue. I will be pleased to answer any questions you may have.

Senator HATFIELD. You have spoken for the panel?

Mr. JOHNSON. No.

Senator HATFIELD. Each one of you has a statement?

Mr. JOHNSON. Yes.

Senator HATFIELD. We will be happy to hear from each one of you.

STATEMENT BY FRED SOHN, PRESIDENT, SUN STUDS, INC., ROSEBURG, OREG.

Mr. SOHN. My name is Fred Sohn. I am president and founder of Sun Studs, Inc., a small business of forest products located in Roseburg, Oreg.

I started the company in 1947. We are considered a high technology company and an efficient converter of timber into lumber and veneer.

During normal times we employ 400 people. Today fewer than 300 people are working. The community in which we live and operate is typical of many small towns in western Oregon. Eighty-three percent of total manufacturing employment and 90 percent of the total manufacturing payroll comes from the timber industry. Unemployment in southern Oregon has stayed at 22 percent or higher, and those who are working are earning often just half of what they did previously.

Individual and small business bankruptcies are running at record levels. In 1979, Douglas County records shows 128 bankruptcies; in 1980 there were 189 bankruptcies; and in 1981, 250.

People are leaving the area in large numbers. So far in 1982 Douglas County has experienced a net loss of 2,500 people. Our company's financial position is deteriorating rapidly. Our current losses are running in the neighborhood of a quarter million dollars to a half million dollars per month. Most companies, including ourselves, have been cleaning up high priced inventories, partially operated sales hopefully to put us in a position to start a normal operation in the future. But these staggering losses have depleted our cash reserves.

Without contract relief, the only alternative left for us will be to default these timber sale contracts. We share many thoughtful people's alarm at the prospect of massive defaults on Federal timber contracts.

The massive asset depletion our company would undergo if we were forced to operate the sales would quickly make us insolvent. We are operating right now at a reasonable level. Next winter we may be completely shut down. Most distressing is the fact that Federal Government policies are responsible for us being in this condition.

It is important also to think that relief from high priced public timber sale contracts will not allow purchasers of public timber to displace production elsewhere, but will simply let the western industry maintain its reduced share until the end product markets improve substantially. The objective of relief should be to maintain a viable western timber industry with the capacity to help meet the needs of a housing and wood products market recovery several years from now.

We believe the simplest and most equitable approach to timber inventory problems is a no-fault turnback of contracts to the selling agencies. This could be the beginning of building up the timber reserve to make our timber sale policies more responsive to the demands. Later as markets improve with the general economy this timber could be resold and used to help stabilize prices so that consumers would be assured of affordable building materials in the future.

It is also important to realize that our Government will receive its assets back whole and intact and many times in an improved fashion. The industry will receive no money or credit, but will pay the highest price possible for its replacement in bidding competitively for new timber sales. This is certainly not a subsidy. Defaults can only upset all of our markets, because of the requirements for immediate resale of this volume. It would force the largest quantity of distressed timber on the market at a distressed price with the purchaser and the Government being the loser.

However, simply adding extra time to timber sale contracts would, by itself, not solve the problem. Adding extra time to timber sale contracts as part of a general relief package is very logical and needed. The higher the terminated volume, the less time needs to be added to the remaining contracts.

I would like to give you our company's position which is very important for the survival of our company, and it probably explores and explains the situation.

Over 60 percent of our company's inventory is in losses exceeding $200 per thousand board feet, or $20 million on an annual basis. Another 23 percent would convert to losses of $100 per thousand board feet. The other 17 percent of our inventory can be converted at a break even today if our markets deteriorate no further.

Simply adding extensions of contract time to these timber sales will not solve the problem. Rollback of prices with harvesting deadlines would certainly reduce the potential losses, but the effect of forcing more wood on this market will only drive finished product prices lower and further aggravate the situation. No-fault turnback appears to us to be the best possible solution.

If we are to survive, we need to return to the selling agency at least 60 percent of our contracted volume. Anything much less than this amount would leave us no choice but to default a major part of the contracts.

We appreciate you having me here and discuss these very important issues.

Senator **HATFIELD**. Thank you.

[The prepared statement of Mr. Sohn follows:]

STATEMENT BY FRED SOHN

PRESIDENT OF SUN STUDS, INC.

Mr. Chairman and Members of the Committee:

My name is Fred Sohn. I am President and founder of Sun Studs, Inc. a small business of forest products located in Roseburg, Oregon.

I started the company in 1947 and it has run continuously from that date. We are considered to be a high technology company and an efficient converter of timber into lumber and veneer.

During normal times we employ just slightly over 400 people. Today we are working on a curtailed production schedule, employing fewer than 300 people.

For the past 9 months we have been working on a week to week basis totally frustrated by the weakest lumber and plywood markets that I have ever seen. Unfortunately for us and our employees there is nothing on the horizon to indicate that this situation will improve.

The community in which we live and operate is typical of many small towns in Western Oregon. The local economy is supported principally by the timber industry. Eighty-three percent of total manufacturing employment and ninety percent of the total manufacturing payroll comes from the timber industry. Most of the mills are small, independently owned and run locally.

For the past 2-1/2 years these mills have been operating at fifty percent of normal. Unemployment has stayed at twenty-two percent or higher and those who are working are earning often just half what they did previously, dut to curtailed shifts.

Individual and small business bankruptcies are running at record levels. In 1979 Douglas County records showed 128 bankruptcies, in 1980 - 189; and in 1981 - 250. The drama of what is happening to our community could not be better illustrated. Many of the small businessmen in our town are just barely hanging on. People are leaving the area in large numbers. So far in 1982 Douglas County has experienced a net loss of 2,500 people. Any worsening of our present economic activity will affect the complexion of our community permanently.

Our company's financial position is deteriorating rapidly because of the recession in the home building industry which has been going on for 3 years. Our current losses are exceedingly high. These losses can only be reduced if current timber sale programs are managed and in balance with current market conditions. Most companies including ourselves have been cleaning up high priced inventories and many partially operated sales. These losses have depleted our cash reserves. The pro forma statement (attachment A) graphically illustrates the enormous losses we face by continuing to operate our public timber sale contracts.

With no contract relief in sight the only alternative left for us will be to default these timber sale contracts. We share many thoughtful people's alarm at the prospect of massive defaults on Federal timber contracts and the expectation of fighting a long drawn out legal battle with the Federal Government over damages. Unfortunately this possibility is becoming more and more real as we look ahead at the few opportunities of moving this high priced timber into a very limited marketplace.

The massive asset depletion our company would undergo if we were forced to operate the sales we now have under contract would quickly make us insolvent. Our example is not unique. Most of the Independents with whom we are familiar are in similar situations. Most distressing is the fact that Federal Government policies are responsible for us being in this condition.

Contract Relief

It is important to realize that relief from high priced public timber sale contracts will not allow purchasers of public timber to displace production elsewhere but will simply let the western industry maintain its reduced share until the end product markets improve substantially. The objective of relief should be to maintain a viable western timber industry with the capacity to help meet the needs of a housing and wood products market recovery several years from now.

The relief program should apply to all Federal Timber; national forests, Bureau of Land Management and other agencies. It should not be at the expense of local governments and should result in maximum possible returns for the agencies involved, given the poor market conditions that exist.

RECOMMENDATIONS

No-Fault Turnback

I believe the simplest most equitable approach to the timber inventory problem is a no-fault turnback of contracts to the selling agencies. This procedure would allow companies such as ours to get out from under the tremendous burden which we now carry. We can then concentrate on keeping our plants operating and our people employed.

This could be the beginning of building up a timber reserve to make our public timber sales policies more responsive to market demands. Later as markets improve with the general economy this timber could be resold and used to help stabilize prices so that consumers would be assured of affordable building materials in the future. Many details such as partially completed contracts and partially constructed roads can be handled by the governing agency.

It is also important to realize that our Government will receive its assets back whole and intact and many times in an improved fashion. The industry will receive no monies or credit but will pay the highest price possible for its replacement in bidding competitively for new timber sales. This is not a subsidy. This method will make it possible to adjust the volume under contract to current market conditions in an orderly fashion. Defaults can only upset all of our markets, because of the requirements for immediate resale of this volume. It would force the largest quantity of distressed timber on the market at a distressed price with the purchaser and the Government being the losers.

Contract Term Adjustment

Simply adding extra time to timber sale contracts would, by itself, not solve the problem. Because of the large volumes and their very high prices these timber sales could not be worked in before the early 1990's, a time frame unacceptable to the agencies and the industry. Contract Term Adjustment alone is no solution.

Adding extra time to timber sale contracts as part of a general relief package is very logical and needed. The higher the terminated volume the less time needs to be added to the remaining contracts. This extra time will allow companies to mix in the remaining high priced sales with current purchases as demand for finished products improves.

Contract Price Modification

This approach has been adopted by the State of Oregon for Board of Forestry timber and it has been proposed as a solution by the Bureau of Land Management. The rollback of prices is tied to a deadline for removal which forces wood into a very weak market and will result in further price weakening in lumber and plywood. The resulting oversupply of the market would further be compounded by the Federal Agencies' present policies of selling public timber.

A perfect example of the present oversupply of the market and its effect on prices is occuring right now. Since March just 4 months ago our major product prices have dropped thirty-six percent. This tremendous drop has been caused principally by current short term timber sale policies. Rollback would only add to this problem.

This proposal may be workable for partially operated timber sales which could not be terminated. As with extra contract time, rollback may have a place in the relief package but it cannot be the main solution.

Sun Studs' Position

In today's market over sixty percent of our company's public timber inventory would convert to losses exceeding $200/MBF or $20,000,000 on an annual basis. Another twenty-three percent would convert to losses of $100/MBF or more. The other seventeen percent of our inventory can be converted at a breakeven today if our markets deteriorate no further.

These statistics graphically demonstrate the magnitude of the problem we face. Simply adding extensions of contract time to these timber sales will not solve the problem. Roll-back of prices with harvesting deadlines would certainly reduce the potential losses but the effect of forcing more wood on this market will only drive finished product prices lower and further aggravate the situation. No-fault turnback appears to us to be the best possible solution.

If we are to survive we need to return to the selling agency at least sixty percent of our contracted volume. Another twenty-three percent of the contracts will need at least 5 years added contract time to fit them into the limited marketplace. Price rollback could logically be applied to those contracts which have been partially logged. The above scenario would allow us to work out from under the burden we now have. Anything much less than this amount of relief would leave us no choice but to default a major part of our Federal contracts.

We honestly believe that prompt and decisive action is needed to avert the impending crisis. Whatever course is chosen, we must be sure that it provides the necessary relief so that action further down the road will not be needed.

Attachment B is background information explaining in more detail our public timber problem, how and why the problem developed and analysis of solutions.

ATTACHMENT A

PROJECTED BALANCE SHEET

	1982	1983	1984	1985	1986
Total Assets	$36,200,000	$35,200,000	$34,400,000	$33,800,000	$33,400,00
Liabilities	$12,800,000	$12,200,000	$11,700,000	$11,100,000	$10,600,00
Liabilities from operational losses	7,600,000	14,900,000	24,500,000	38,700,000	55,200,00
Total liabilities	20,400,000	27,100,000	36,200,000	49,800,000	65,800,00
Capital-beginning of year	22,800,000	15,800,000	8,100,000	(1,800,000)	(16,000,00
Projected loss for year	(7,000,000)	(7,700,000)	(9,900,000)	(14,200,000)	(16,400,00
Capital-end of year	15,800,000	8,100,000	(1,800,000)	(16,000,000)	(32,400,00
Total liabilities & capital	$36,200,000	$35,200,000	$34,400,000	$33,800,000	$33,400,00

Assumptions:

1. Markets for lumber and plywood remain essentially the same.
2. Contract relief is not granted and the present volume under contract is forced into production.
3. Assets and liabilities represent current book values.

ATTACHMENT B

Public Timber Supply

In Western Oregon the Federal Government, Forest Service and B.L.M. owns and controls the vast majority of the mature saw timber inventory. A few very large multinational corporations own significant volumes of mature timber but this wood is processed generally through their own plants and is not available to the independent producer.

During the past 20 years a significant industry of independent producers has developed based on the timber coming from these Federal Lands. The timber is auctioned to the highest bidder and this system has led to the development of the most efficient processors of wood products in the history of our country. It is these producers who are now on the verge of financial ruin through policies fostered and controlled by our Federal Government.

It is important to this discussion to remember that the Federal Government has a monopoly position in the timber available to the independent producers in the Northwest. And, it is this same government who has manipulated monetary policies that are now leading us to the brink of disaster.

Public Timber Purchasing Process

The Forest Service and the B.L.M. in Western U. S. offer timber for sale in contracts that provide for a certain volume to be harvested and paid for over a period of 2 to 5 years. Bidding is conducted to determine who will get each timber sale. Over the years there developed a dependent timber industry made up of sawmills, veneer mills and plywood plants. Independent loggers who bought timber and sold logs on the open market disappeared. This resulted because mills with their large investments at fixed locations had to have a reasonable degree of control of their raw material supply. In addition they needed a supply ahead.

Sales were made on the basis of bid prices to be paid when the timber was cut. This provided a reasonably certain outlook for cost of raw material and some flexibility as to when to cut during the contract period. During the Sixties the prices bid for public timber tended to increase somewhat, more due to local scarcities of supply rather than inflation. Timber sales were generally cut at an orderly rate over the entire contract period. In any given year the prices being paid for timber cut in that year on existing contracts tended to be about the same as prices being bid for new contracts, or only slightly less.

In the early Seventies the rate of inflation increased until, by the later Seventies, inflation became a household word. During this time timber supply problems of all sorts arose ranging from depletion of private inventories, to land withdrawals, Rare II, and environmental constraints on public lands. Bidding became more competitive on public sales. Successful bidders, more often than not were mill purchasers who were willing to promise to pay prices for timber that they could not expect to afford to pay until several years later. Thus, bid prices for timber sold came to greatly exceed the average prices being paid for timber being cut in that same year on existing contracts. Purchasers then would delay cutting such sales as long as possible in order to afford to cut when wood product markets were higher.

Today's situation is caused by economic events that have disrupted the workings of this procedure. Continued double-digit inflation and a federal housing program would allow the past procedure to continue, that is, the purchasers of public timber could "afford" to cut their contracts. However, national policy and programs are aimed at making inflation subside and to allow housing to languish rather than be artificially stimulated. Thus, the timber industry situation is not the industry's fault so much as it is the result of a concerted national effort to change the underlying nature of our whole economy.

Bidding History of the Umpqua Timbershed 1976 to Present

In 1976 our company was crawling out of the recession of 1974 and 1975. Product prices were starting a slow but steady improvement. Bids for Forest Service and Bureau of Land Management timber sales reflected the general strengthening of the markets. It was common to see bid premiums in the range of 10 to 20 percent over the agencies appraised price. Most companies dependent upon public timber were able to secure enough volume at reasonable prices to satisfy their needs. At this point our timber supply versus demand was in a delicate balance.

In June of 1976 our company had under contract approximately 180MM board feet of public timber. Of this total approximately 85 percent was on the Umpqua National Forest, the largest supplier in our timbershed. The rest was mostly Bureau of Land Management timber from the Roseburg District which is the other major supplier in the timbershed. The average stumpage cost for this inventory averaged $160/M for

Douglas Fir. The 180MM inventory represented just short of a two year supply of timber for our mill, which we considered a minimum inventory.

The year of 1977 brought further improvement to our markets and resulted in a further push upward of stumpage prices. By the end of 1977 our volume under contract dropped to 175MM with the Umpqua National Forest again accounting for 85 percent of the inventory. Prices for stumpage escalated upward by about 10 percent leaving us with Douglas Fir at approximately $180/M.

The year of 1978 followed the same pattern as 1977. Markets continued to improve and stumpage prices continued upward. Our volume under contract moved up to 185MM board feet and the average Douglas Fir stumpage rose to $210/M, a raise of over 15 percent. This year signalled the entry into our timbershed of outside bidders primarily from the Eugene area. These were basically legitimate operators who had been forced out of their traditional timber supply areas because of the extreme competition for timber.

What happened in Eugene is no secret. One operator decided it was time to secure a large timber inventory to corner the market. The individual involved was Amos Hoerner who was the key principal in two companies, All American Stud and Tomco. In September of 1977 these two companies had a combined volume under contract on the Willamette National Forest of 39MM board feet. By September of 1978 this volume was increased to 81MM board feet and by March of 1979 it had ballooned to 230MM board feet, an increase in 18 months of almost sixfold. This acquisition of very large volumes at extreme prices tipped the supply-demand balance, drove up prices and forced operators to move to other areas. Our timbershed was located just to the south and so they came.

The year of 1979 started in earnest the irrational bidding for public timber. We used every appraisal device imaginable attempting to justify the $400, $500 and $600 stumpage prices that were being bid. We could not find one, short of adding yearly inflation increments in the range of 10 to 12 percent to just get close to these numbers. Because of the intense competition we, like our neighbors to the north, were forced to move into areas outside our timbershed to secure our raw materials.

At this point a further complication was added to the timber bidding war which was now in full swing. Several other operators in Southwest Oregon decided as did Amos Hoerner that now was the time to build a large timber inventory. In the Roseburg timbershed one small operator began to bid very aggressively for public timber with this goal in mind. This operator started with a 10MM board feet inventory which equaled one years needs for his mill and in a short 24 month period expanded it to over 60MM board feet. Our company ended up bidding an extra three million dollars for stumpage during this period just trying to protect our own needs. The cost to other operators in the area was many times this amount.

Both of these operators have now gone out of business leaving the Federal Agencies and the bonding companies to fight over the damages.

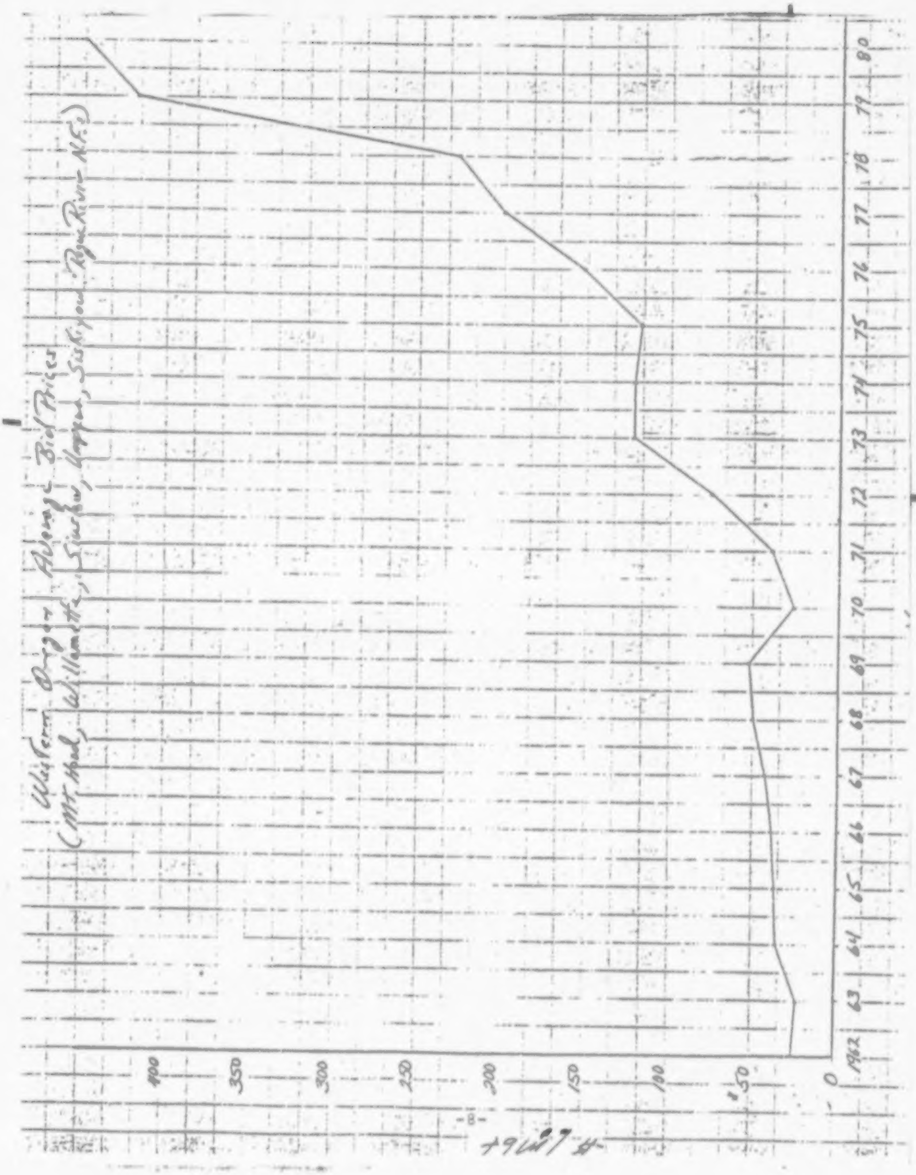
At the end of 1979 our volume under contract had dropped to 165MM board feet. To maintain this volume we were forced to bid inflated values and our average Douglas Fir stumpage rose to just under $300/M, an increase from the previous year by over 40 percent. Most distressing was the fact that our volume under contract on the Umpqua National Forest was now below 70 percent, a drop of over 15 percent. Thus at the end of the year we found our volume under contract was below what we considered a minimum acceptable level, the price was up by over 40 percent and we were now forced to bid in other timbersheds to maintain our inventory.

The year of 1980 was a repeat of 1979. Bidding, if anything, intensified. Our average Douglas Fir stumpage at the end of the year raised to $400/M, an increase of another 30 percent over the previous year. Our volume under contract rose to just over 200MM board feet, but the percentage on the Umpqua, our normal timbershed, dropped another 5 percent down to 60 percent of our total. Basically the recovery we made in timber inventory was done so in adjacent timbersheds.

The year of 1981 started a repeat of the bidding of 1979 and 1980. By this time, however, the effect of the market collapse was now being felt and bidding began to ease up. By the end of the year prices for Douglas Fir stumpage had dropped to 1978 levels.

Today prices for timber are further declining and are now getting much closer to the marketplace except for isolated instances. We are, however, saddled with sales purchased in desperation bidding in 1979, 1980 and early 1981 that would spell quick economic ruin to us if we had to operate them. This situation is common for most of the Independents who operate on public timber in Western Oregon.

The following graph shows the dramatic increase in the timber bidding in Western Oregon from 1962 to 1980. The second graph shows how this bidding affected the average cost of our timber inventory.



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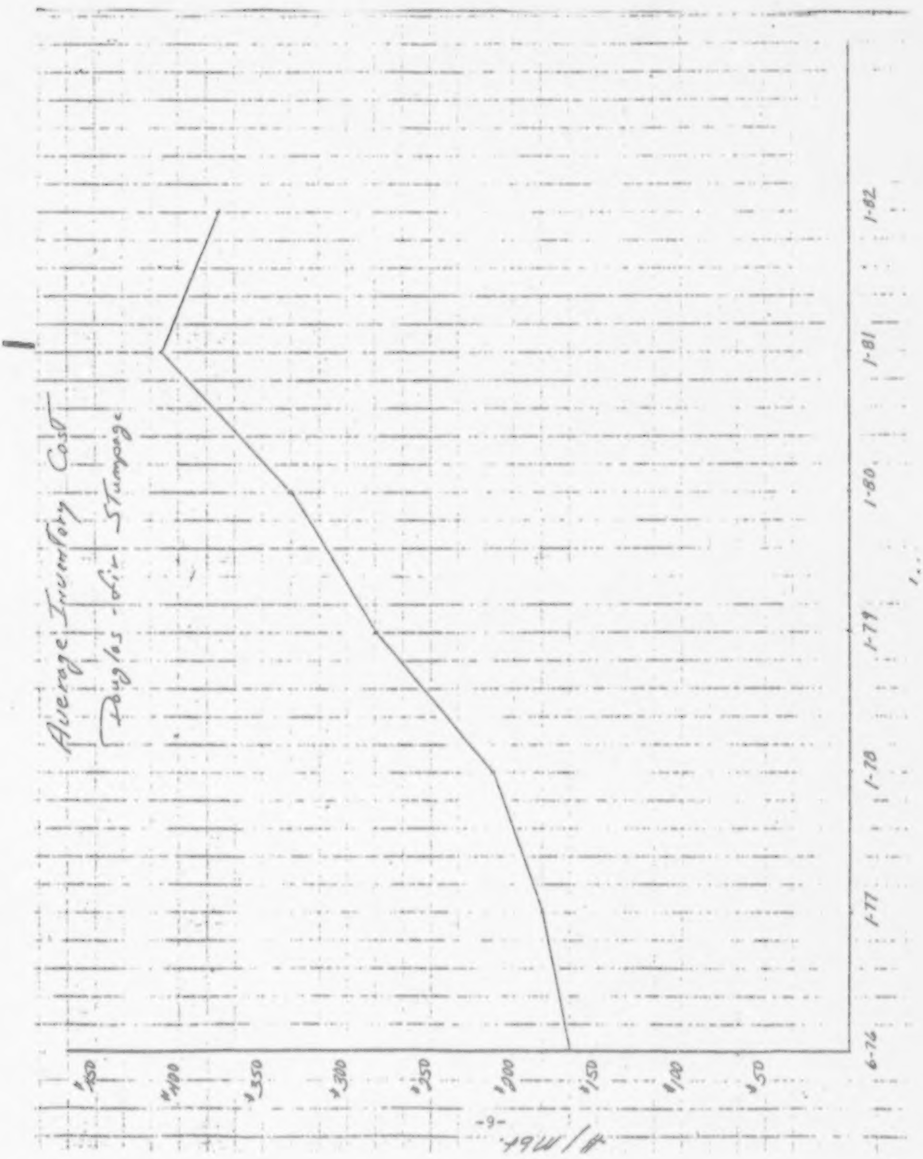

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Primary Causes of the Intense Bidding

If I had to summarize the basic causes that led up to the past five years of insane bidding, I would rank them in this order:

1. Fixed and Declining Timber Supply

   Most people simply do not realize that an inadequate timber supply is the key factor which led to the excessive bidding we witnessed these past few years. What they fail to understand is that while National Forest cuts in the West have only modestly declined, the total harvest from all sources--Forest Service, Bureau of Land Management and private--as an aggregate have declined dramatically and will continue to do so. This overall timber supply decline is the source of most of our timber bidding problems, and until people recognize this fact any solutions will be purely cosmetic.

   Uncertainty of raw material supply has been a driving force on the western timber industry where public timber is so important. Much of this uncertainty has been an unnecessary result of public policies and attitudes rather than real shortages. Therefore, a large portion of recent stumpage price increases has been artificially stimulated.

   In addition, the fixed annual sale programs of the public agencies does not respond either up or down to market demands and further contributes to the large stumpage price fluctuations.

2. Federal Government Monetary Policies
   The highly variable monetary policies of our Federal Government have forced housing into the boom-bust cycles of the past decade and fed the fires of demand and intensified the competition. Inflationary pressures have further aggravated the situation.
3. Federal Agency Timber Selling Policies
   The free-for-all competition for public timber causes mill operators to be thrown into the pot with all comers to compete for timber. This system provides no protection for the operator who has millions of dollars invested in fixed plants and equipment, and no guarantee or assurance that he can successfully acquire raw materials to operate his facilities and recapture his investment. During the heydays of the bidding we even had a used car dealer, with absolutely no interest in the industry, successfully bid a major timber sale running out all competitors.

The Plight of the Public Timber Purchaser

Lumber and plywood are the primary products made from public timber in the West, with pulp logs and pulp chips an important related product. There are many kinds of lumber and of plywood, varying by the kind of timber used and the use to be made of the product. The markets are competitive and prices are responsive to supply and demand. The Western U. S. timber industry competes among themselves and with producers in Canada and in the South. The plight of the western producers in regard to costs of public timber has already allowed the Canadians and the South to capture more of the markets. Western producers are shut down or on curtailed production. It is important to realize that relief from high priced public timber sale contracts will not allow purchasers of public timber to displace production elsewhere but will simply let the western industry maintain its reduced share until the end product markets improve substantially. Relief is needed to survive. The design of relief measures must be such that total production will not be stimulated to increase without an increase in wood products demand. Furthermore, relief should not cause production to shift significantly from one local or regional area to another. The objective of relief should be to maintain a viable western timber industry in terms of their capacity to help meet the needs of a housing and wood products market recovery several years from now.

Criteria for Contract Relief

We share your alarm at the prospects of massive defaults on Federal timber contracts. Unfortunately this prospect is becoming more and more real as we look ahead at the very limited opportunities of moving this high priced timber under contract into a very limited marketplace. Forced operation of our public timber contracts would quickly make us insolvent. Our example is not unique. Most of the Independents with whom we are familiar are in similar situations, as are many publicly held corporations. Most distressing is the fact that Federal Government policies are responsible for us being in this condition.

In presenting our proposals for contract relief we have attempted to consider the following points:

1. Relief must result in reduced cost of timber under contract and avoid creating pressure to cut.
2. Relief must be moderate so as to not over stimulate production and thereby depress wood products market prices further.
3. Relief should be equitable and available to all public timber purchasers. It should be designed to assist purchasers independently of their overall size or their degree of dependence on public timber.
4. Similar measures should be provided on all federal timber; national forest, B.L.M. and other agencies.
5. Relief should not be at the expense of local governments. It should result in maximum possible returns, given the poor market conditions that exist.

STATEMENT OF LYNN NEWBRY, VICE PRESIDENT, MEDFORD CORP., MEDFORD, OREG.

Mr. Newbry. My name is Lynn Newbry. I am vice president of Medford Corp. I am presenting this statement on behalf of our company today.

Before I do that, Senator, I would like to express my personal appreciation and the appreciation of our company to you for the tremendous amount of time and effort that you have devoted to solutions to our problem. I want you to know, Senator, we deeply appreciate it and we work hard to help you.

Our company is a large company by SBA standards, but a relatively small company by any other measure. We are tree farmers in a modest way, and we manufacture lumber, plywood, medium density fiberboard, pulp chips, and kitchen cabinets. With the exception of pulp chips, we are inextricably tied to the housing market.

Our company is in total and unequivocal support of the position of the forest products industry with respect to contract renegotiation as outlined by prior speakers. We believe the position requesting the termination of certain contracts, extension of others, and modification of road credits in existing contracts represents a general consensus within the industry and is fair to all parties, including the Federal Government.

The need for this legislation I think was eloquently presented to you by Governor Atiyeh, so I won't draw on that except to tell you that our company is suffering the same as any other company who is dependent upon public timber for raw material.

I think what I would like to do is take a few minutes to clear up what I consider to be some severe misconceptions with respect to what we are here doing today.

There have been allegations in the press and other places that this industry is here asking for special consideration, a $2 million handout, a Chrysler-type bailout, extraordinary windfalls from the Public Treasury and a variety of other things.

Senator, these allegations have no basis in fact and represent a complete misunderstanding, in my judgment, of the situation and the purpose of this legislation.

This industry is not here hat in hand asking for any bailout whatsoever. We are not asking for any subsidy. We are not asking you to open up the public purse, nor are we asking you to sell us Government timber at prices that are below its value.

The simple facts are that we are parties to contracts to purchase timber from the U.S. Government that cannot be fulfilled under current economic conditions which are far beyond our control, and certainly not of our making.

In the usual course of business, when one party to a contract is unable to fulfill that contract, for reasons beyond his control, the parties attempt to work out an agreement whereby the contract is amicably terminated or modified to the mutual benefit of both parties.

This is all we are asking in the legislation and all your legislation is designed to do.

Medford Corp. does not haul its own logs. We don't own a log truck. We contract for this work with independent truckers. When the price of diesel suddenly jumped from 29 to 75 cents per gallon, these fellows told us they couldn't haul for the price that was agreed upon in the contract.

Now our company did not insist that they eat those contracts and suffer financial difficulties. We renegotiated, even though it increased our cost and reduced our profitability. It was important to our company to keep these contractors financially alive and healthy.

Now it seems the situation that is under discussion here today is similar to the plight of these log haulers. These contracts between the individual members of the industry and the Federal agencies were entered into in good faith based upon circumstances that existed at the time. We were in a period of double digit inflation, demand was strong for the finished product, there was demographic information coming from the U.S. Government indicating a need for 2 million housing starts per year throughout the decade of the eighties. At the same time, public policies affecting the land base and the allowable cut created great concern within the industry about a diminishing supply of timber.

Under these circumstances, it is no wonder that the prices were high. These circumstances have changed completely. Deflation has replaced inflation in our industry. Mortgage money for housing, if available at all, is priced out of the range of the home buyer. The forest products, homebuilding, and remodeling industries are all at a virtual standstill and demand for our products has diminished accordingly. The conditions that existed at the time these contracts were awarded no longer exist. The sad fact is that these contracts cannot be fulfilled without catastrophic losses to the purchaser.

On the other hand, termination or extension does not have a severe impact on the U.S. Treasury as pointed out by Governor Atiyeh. The contracts that would be terminated under our proposal would be on sales where no timber has been removed; thus, no loss of property to the Government. It might appear that a loss occurs when comparing the bid price with the appraisal, but this difference actually represents a profit to the Treasury which some might characterize as windfall profits considering the fact that these bid prices are three to five times the Government's original appraisal value.

This reduction of profit from these sales is far different from the severe operating losses being suffered by your customers, the forest products industry. The extension of contracts requested in this legislation only delays the day of fulfillment and the corresponding delay in cash flow to the Treasury.

When viewed in this context, this legislative authority would result in no real financial loss to the Government, but merely a recognition by the Congress that circumstances have changed and public policy must reflect these changes.

It seems to me the real policy decision facing your committee is the question of whether the Government is going to insist on enforcing timber purchase contracts with bid prices far above current values and at the expense of the financial well-being of its best customers, or is the Government willing to modify or terminate these contracts consistent with good business practices to maintain the economic viability, and surely in some cases, the very survival of the forest products industry with little impact on the Treasury.

In the long run, it would seem to me this latter course would best serve the public interest by maintaining the productive capacity of the industry and the highest level of employment for the people working. Productive capacity and know-how is essential to meet the growing pent-up demand among millions of young people dreaming the great American dream of home ownership. This demand will surely come when mortgage interest rates become affordable. We hope we are ready to meet that demand. Thank you, Senator.

Senator HATFIELD. Thank you.

[The prepared statement of Mr. Newbry follows:]

STATEMENT OF MEDFORD CORPORATION
BEFORE THE
SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER
SENATOR WALLOP, CHAIRMAN
SENATOR HATFIELD, CHAIRMAN OF HEARINGS
AUGUST 16 AND 17, 1982
WASHINGTON, D.C.

SENATOR HATFIELD AND MEMBERS OF THE COMMITTEE:

MY NAME IS LYNN NEWBRY, P. O. BOX 550, MEDFORD, OREGON. I AM A VICE PRESIDENT OF MEDFORD CORPORATION AND AM PRESENTING THIS STATEMENT ON BEHALF OF OUR COMPANY.

MEDFORD CORPORATION IS A LARGE COMPANY BY SBA STANDARDS, BUT A RELATIVELY SMALL COMPANY BY ANY OTHER MEASUREMENT. WE ARE TREE FARMERS IN A MODEST WAY AND MANUFACTURE LUMBER, PLYWOOD, MEDIUM DENSITY FIBERBOARD, PULP CHIPS, AND KITCHEN CABINETS. WITH THE EXCEPTION OF PULP CHIPS, WE ARE INEXTRICABLY TIED TO THE HOUSING MARKET.

MEDFORD CORPORATION IS IN TOTAL AND UNEQUIVOCAL SUPPORT OF THE POSITION OF THE FOREST PRODUCTS INDUSTRY WITH RESPECT TO CONTRACT RENEGOTIATION AS OUTLINED BY PRIOR SPEAKERS. WE BELIEVE THE INDUSTRY POSITION REQUESTING

THE TERMINATION OF CERTAIN CONTRACTS, EXTENSION OF OTHERS, AND MODIFICATION OF ROAD CREDITS IN EXISTING CONTRACTS REPRESENTS A GENERAL CONSENSUS WITHIN THE INDUSTRY AND IS AS FAIR TO ALL PARTIES (INCLUDING THE FEDERAL GOVERNMENT) AS CAN BE ACHIEVED.

AS PREVIOUS SPEAKERS HAVE POINTED OUT, THE FOREST PRODUCTS INDUSTRY AND THE PEOPLE WORKING IN IT ARE SUFFERING THE MOST PROLONGED AND DEEPEST RECESSION SINCE THE GREAT DEPRESSION. THERE IS NO QUESTION BUT WHAT SOME KIND OF CONTRACT MODIFICATION LEGISLATION IS ESSENTIAL TO THE ECONOMIC WELL-BEING, PERHAPS EVEN SURVIVAL, OF MANY COMPANIES HOLDING TIMBER PURCHASE CONTRACTS WITH THE U.S. GOVERNMENT.

PREVIOUS TESTIMONY HAS COVERED THE NEED FOR LEGISLATION TO RESOLVE THIS ECONOMIC PROBLEM SO I WILL NOT PURSUE THE MATTER FURTHER EXCEPT TO SAY THAT OUR COMPANY FINDS ITSELF IN VIRTUALLY THE SAME POSITION AS ANY OTHER WOOD PRODUCTS COMPANY DEPENDENT UPON PUBLIC TIMBER FOR RAW MATERIAL.

I WOULD LIKE TO DISCUSS THE NATURE OF OUR REQUEST. THERE HAVE BEEN ALLEGATIONS IN THE PRESS AND ELSEWHERE THAT THIS INDUSTRY IS ASKING FOR SPECIAL CONSIDERATION, THAT WE ARE ASKING FOR A CHRYSLER-TYPE BAILOUT OR

EXTRAORDINARY WINDFALLS FROM THE PUBLIC TREASURY. THESE ALLEGATIONS HAVE NO BASIS IN FACT AND REPRESENT A COMPLETE MISUNDERSTANDING OF THE SITUATION AND THE PURPOSE OF THIS LEGISLATION.

THE FOREST PRODUCTS INDUSTRY IS NOT HERE, HAT IN HAND, ASKING FOR ANY BAILOUT WHATSOEVER. WE ARE NOT ASKING FOR ANY SUBSIDY. WE ARE NOT ASKING YOU TO OPEN UP THE PUBLIC PURSE NOR ARE WE ASKING YOU TO SELL US GOVERNMENT TIMBER AT PRICES BELOW VALUE.

THE SIMPLE FACTS ARE THAT WE ARE PARTIES TO CONTRACTS TO PURCHASE TIMBER FROM THE U.S. GOVERNMENT THAT CANNOT BE FULFILLED UNDER CURRENT ECONOMIC CONDITIONS WHICH ARE FAR BEYOND OUR CONTROL AND CERTAINLY NOT OF OUR MAKING.

IN THE USUAL COURSE OF BUSINESS, WHEN ONE PARTY TO A CONTRACT IS UNABLE TO FULFILL THAT CONTRACT, FOR REASONS BEYOND HIS CONTROL, THE PARTIES ATTEMPT TO WORK OUT AN ARRANGEMENT WHEREBY THE CONTRACT IS AMICABLY TERMINATED OR MODIFIED TO THE MUTUAL BENEFIT OF BOTH PARTIES.

THIS IS ALL WE ARE ASKING FOR IN THIS LEGISLATION.

I AM REMINDED OF A SIMILAR SITUATION IN OUR OWN COMPANY. MEDFORD CORPORATION DOES NOT HAUL ITS OWN LOGS. WE CONTRACT FOR LOG HAULING WITH INDEPENDENT TRUCKERS. WHEN THE PRICE OF DIESEL SUDDENLY JUMPED FROM 29¢ TO 75¢ PER GALLON, THESE OPERATORS TOLD US THEY JUST COULDN'T HAUL FOR THE PRICES AGREED UPON IN THE CONTRACT. OUR COMPANY DID NOT INSIST THAT THEY "EAT" THESE CONTRACTS, FORCING THEM INTO SERIOUS FINANCIAL DIFFICULTY. WE RENEGOTIATED. EVEN THOUGH IT INCREASED OUR COSTS AND REDUCED OUR PROFITABILITY, IT WAS IMPORTANT TO OUR COMPANY TO KEEP THESE CONTRACTORS FINANCIALLY ALIVE AND HEALTHY.

IT SEEMS TO ME THAT THE SITUATION UNDER DISCUSSION TODAY IS SIMILAR TO THE PLIGHT OF THESE LOG HAULERS IN EVERY RESPECT AND EXPLAINS THE POLICY DECISION FACING THIS COMMITTEE.

THESE CONTRACTS BETWEEN THE INDIVIDUAL MEMBERS OF THE INDUSTRY AND THE FEDERAL AGENCIES WERE ENTERED INTO IN GOOD FAITH BASED UPON THE CIRCUMSTANCES THAT EXISTED AT THE TIME. WE WERE IN A PERIOD OF DOUBLE DIGIT INFLATION, DEMAND WAS STRONG FOR THE FINISHED PRODUCT, THERE WAS DEMOGRAPHIC INFORMATION COMING FROM THE DEPARTMENT OF HOUSING AND URBAN

AFFAIRS INDICATING A NEED FOR TWO MILLION HOUSING STARTS PER YEAR DURING THE DECADE OF THE EIGHTIES. AT THE SAME TIME, PUBLIC POLICIES AFFECTING THE LAND BASE AND THE ALLOWABLE CUT CREATED GREAT CONCERN WITHIN THE INDUSTRY ABOUT A DIMINISHING SUPPLY OF TIMBER.

THESE CIRCUMSTANCES HAVE CHANGED COMPLETELY. DEFLATION HAS REPLACED INFLATION IN OUR INDUSTRY. MORTGAGE MONEY FOR HOUSING, IF AVAILABLE, IS PRICED OUT OF THE RANGE OF THE HOME BUYER. THE FOREST PRODUCTS, HOME BUILDING, AND REMODELING INDUSTRIES ARE AT A VIRTUAL STANDSTILL AND DEMAND FOR OUR PRODUCTS HAS DIMINISHED ACCORDINGLY. THE CONDITIONS THAT EXISTED AT THE TIME THESE TIMBER CONTRACTS WERE AWARDED NO LONGER EXIST. THE SAD FACT IS THAT THESE CONTRACTS CANNOT BE FULFILLED WITHOUT CATASTROPHIC LOSSES TO THE PURCHASERS. ON THE OTHER HAND, TERMINATION OR EXTENSION DOES NOT HAVE A SEVERE IMPACT ON THE U.S. TREASURY. THE CONTRACTS THAT WOULD BE TERMINATED UNDER OUR PROPOSAL WOULD BE ON SALES WHERE NO TIMBER HAS BEEN REMOVED; THUS, NO LOSS OF PROPERTY TO THE GOVERNMENT. IT MIGHT APPEAR THAT A LOSS OCCURS WHEN COMPARING THE BID PRICE WITH THE APPRAISAL, BUT THIS DIFFERENCE ACTUALLY REPRESENTS THE PROFIT TO THE TREASURY WHICH SOME MIGHT CHARACTERIZE

AS WINDFALL PROFITS CONSIDERING THE FACT THAT THE BID PRICES ARE THREE TO FIVE TIMES THE GOVERNMENT'S ORIGINAL APPRAISAL OF VALUE. THIS REDUCTION OF PROFIT FROM THESE SALES IS FAR DIFFERENT FROM THE SEVERE OPERATING LOSSES BEING SUFFERED BY YOUR CUSTOMERS, THE FOREST PRODUCTS INDUSTRY. THE EXTENSION OF CONTRACTS REQUESTED IN THIS LEGISLATION ONLY DELAYS THE DAY OF FULFILLMENT AND THE CORRESPONDING DELAY IN CASH FLOW TO THE TREASURY. WHEN VIEWED IN THIS CONTEXT, THIS LEGISLATIVE AUTHORITY WOULD RESULT IN NO REAL FINANCIAL LOSS TO THE GOVERNMENT, BUT MERELY A RECOGNITION BY THIS CONGRESS THAT CIRCUMSTANCES HAVE CHANGED AND PUBLIC POLICY MUST REFLECT THESE CHANGES.

WITH ALL THIS IN MIND, THE REAL POLICY DECISION FACING THIS COMMITTEE IS THE QUESTION OF WHETHER THE GOVERNMENT IS GOING TO INSIST ON ENFORCING TIMBER PURCHASE CONTRACTS WITH BID PRICES FAR ABOVE CURRENT VALUES AT THE EXPENSE OF THE FINANCIAL WELL-BEING OF ITS BEST CUSTOMERS OR IS THE GOVERNMENT WILLING TO MODIFY OR TERMINATE THESE CONTRACTS CONSISTENT WITH GOOD BUSINESS PRACTICES TO MAINTAIN THE ECONOMIC VIABILITY, AND SURELY IN SOME CASES THE VERY SURVIVAL, OF THE FOREST PRODUCTS INDUSTRY WITH LITTLE IMPACT ON THE TREASURY.

IN THE LONG RUN, IT WOULD SEEM THIS LATTER COURSE WOULD BEST SERVE THE PUBLIC INTEREST BY MAINTAINING THE PRODUCTIVE CAPACITY OF THE INDUSTRY AND THE HIGHEST LEVEL OF EMPLOYMENT FOR THE PEOPLE WHO WORK IN IT — PRODUCTIVE CAPACITY AND KNOW-HOW ESSENTIAL TO MEET THE GROWING, PENT-UP DEMAND AMONG MILLIONS OF YOUNG PEOPLE DREAMING THE GREAT AMERICAN DREAM OF HOME OWNERSHIP. THIS DEMAND WILL SURELY COME WHEN MORTGAGE INTEREST RATES BECOME AFFORDABLE.

IF THERE ARE ANY QUESTIONS, I WOULD BE HAPPY TO RESPOND.

STATEMENT OF JOHN W. DAVIS, GENERAL MANAGER, WESTERN TIMBER & LOGGING, WILLAMETTE INDUSTRIES, INC., PORTLAND, OREG.

Mr. DAVIS. I am John Davis, general manager of Willamette Industries, Inc., of Portland, Oreg.

First off, I would like to thank you, Senator, for the confidence you have displayed in our company by asking us to participate.

Our firm is a medium-sized forest products company with plywood plants and sawmills located in several small communities in northwestern Oregon, northern Louisiana, and southern Arkansas. In all we have 56 facilities and employ approximately 8,500 people.

All of that began in about 1905 in a small town in Oregon named Dallas with one small mill, and through combinations of good management and good luck, we have grown to our current size.

Our basic raw material in our western Oregon mills is log. These logs come from a variety of sources. Our own lands and other lands that we have under contract provide roughly one-half of our needs, and we are able to obtain another 10 percent of those needs from open market log purchases. The remaining 40 percent comes from Federal timber sale contracts purchased in open competition.

These Federal contract are normally purchased 3 to 5 years prior to their actual harvest to allow time to construct the necessary roads and to provide a suitable mix of species and grades for our varying mill requirements. As you are no doubt aware, during the past few years competition for the available Federal timber in Oregon became intense. So intense, in fact, that prices contracted far reached to unheard of levels.

We did not become involved in this intense bidding just because we felt the inflationary spiral of the times would go on and on indefinitely. Rather, it was a case of buy the timber now so that we would have logs to operate with 3 to 5 years in the future.

The reasons behind the high levels timber bidding reached are many and varied, but the prime force behind this bidding was the U.S. Government itself. High inflation was a fact of life. Government economists predicted moderate mortgage interest rates and a housing boom in the decade of the 1980's. Since Government itself controlled the amount of timber put up for sale each year and gave no sign it planned to increase the timber sale volume to match its predictions for increased demand for lumber and plywood, the result was to drive the prices bid to unrealistically high levels.

That same Government has now reversed its own policies concerning inflation, mortgage rates, and its bias for housing. We now find ourselves in a period of declining inflation, extraordinarily high interest rates, and a delegation of housing to a low position on the national list of priorities. This reordering of national priorities has left our industry, and especially the western industry, holding the bag that the Government helped us fashion. That bag is now overflowing with timber sale contracts too expensive to operate now or in the near future. If no relief from these unrealistic contracts is forthcoming, massive contract defaults will be the result. Such defaults will have a devastating effect on many communities in the West. Local governments such as our cities, counties, and school districts will be subjected to economic havoc unparalleled since the Great Depression. There is no question that some sort of relief from the most onerous of these contracts will not only help the companies involved, but also the citizens of our timber-dependent communities and all levels of government.

The relief our industry asks for is not a bailout as it has been characterized by some. We are asking for our contracts with the Government to be modified to compensate for changing conditions that the Government brought about. Such contract changes are not unique in business, nor are they unheard of in Government. Long-term procurement contracts often are modified when unexpected conditions arise. It is in the best interest of both parties to these contracts to see orderly modification of the terms rather than plunge all affected parties into the chaos that will surely ensue if no changes are made.

The questions you are considering here today are what kind of relief is appropriate? What kind of relief will save this industry and these communities and yet be equitable to all concerned? I am here to recommend that the relief legislation considered contain the following elements: Termination of an appropriate volume of timber under contract would provide immediate relief for all concerned parties. This would allow the companies terminating such contracts to purchase lower priced sales currently on the market and immediately begin harvesting and milling operations, thus maintaining employment and continuing a flow of revenue to the treasuries of the United States and the various counties involved.

We feel that an appropriate level of terminations that should be allowed is 40-percent of the total volume of Forest Service and Bureau of Land Management timber under contract on January 1 of this year. Forty percent would allow the companies to dispose of their highest priced timber contracts and yet hold those same companies responsible for some of the contracts they have. I might add 40 percent represents what is considered by most of the industry to be the overburden of timber sale contracts; that is of the total volume under contract about 40 percent is excessive by today's market needs.

During many hours of discussion and negotiation with representatives of industry from all over the country, this percentage of terminations was arrived at as being the most equitable to all.

Extension of contract term, coupled with the 40-percent terminations should be a 5-year extension of the time limit on all contracts not terminated. For the average western operator, 5 years additional time to harvest the remaining timber under contract will be necessary to work off that volume of high priced timber. Such a contract term adjustment should have requirements for periodic payments on the contracts or other incentives to insure the orderly removal of timber in this category. However, these payments or incentives should be structured in a manner that will not force wood on a market that cannot accept it because of poor market conditions.

Should legislation containing these elements be enacted into law, it is imperative that the Forest Service and Bureau of Land Management use caution in setting sales levels in the West.

I would like to thank you very much for this opportunity to testify on behalf of this bill, and if there are any questions, I would be happy to try to answer them.

Senator HATFIELD. Thank you.

[The prepared statement of Mr. Davis follows:]

STATEMENT OF JOHN W. DAVIS
GENERAL MANAGER, WESTERN TIMBER & LOGGING
WILLAMETTE INDUSTRIES, INC.
PORTLAND, OREGON
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
AUGUST 16, 1982

Mr. Chairman and Members of the Committee:

I am John W. Davis, General Manager of Western Timber and Logging Operations for Willamette Industries, Inc., of Portland, Oregon. Our firm is a medium-sized forest products company with plywood plants and sawmills located in several small communities in northwestern Oregon, northern Louisiana, and southern Arkansas. We are also manufacturers of pulp and paper, corrugated containers, grocery bags, business forms and folding cartons for food products. Plants manufacturing these products are located in 13 states across the country. In all, we have 56 plants employing approximately 8,500 persons.

My purpose in pointing out these statistics to you is to demonstrate that Willamette Industries is what is known in our trade as an "integrated forest products operation." Integration, in this context, means the step by step processing of our basic raw material - logs - into commodities needed and used by society. These logs are processed into plywood or lumber and the waste from this conversion becomes the raw

MATERIAL FOR THE NEXT PROCESS -- CHIPS AND SHAVINGS FOR PAPER OR PARTICLEBOARD -- AND SO ON. WE BEGAN WITH ONE SMALL SAWMILL IN DALLAS, OREGON, IN 1905 AND HAVE GROWN TO OUR PRESENT SIZE BY UTILIZING OUR RAW MATERIALS MORE EFFICIENTLY THAN MOST OF OUR COMPETITORS.

FOR OUR WESTERN OREGON MILLS, THIS BASIC RAW MATERIAL, LOGS, COMES FROM A VARIETY OF SOURCES. OUR OWN LANDS AND OTHER PRIVATE LANDS WE HAVE UNDER CONTRACT PROVIDE ROUGHLY ONE-HALF OUR NEEDS. WE ARE ABLE TO OBTAIN ANOTHER 10 PERCENT OF THOSE NEEDS FROM OPEN-MARKET LOG PURCHASES; AND THE REMAINING 40 PERCENT COMES FROM FEDERAL TIMBER SALE CONTRACTS PURCHASED IN OPEN COMPETITION.

THESE FEDERAL CONTRACTS ARE NORMALLY PURCHASED THREE TO FIVE YEARS PRIOR TO THEIR ACTUAL HARVEST TO ALLOW TIME TO CONSTRUCT THE NECESSARY ROADS AND TO PROVIDE A SUITABLE MIX OF SPECIES AND GRADES FOR OUR VARYING MILL REQUIREMENTS. AS YOU ARE NO DOUBT AWARE, DURING THE PAST FEW YEARS COMPETITION FOR THE AVAILABLE FEDERAL TIMBER IN OREGON BECAME INTENSE. SO INTENSE, IN FACT, THAT PRICES CONTRACTED FOR REACHED TO UNHEARD OF LEVELS.

WE DID NOT BECOME INVOLVED IN THIS INTENSE BIDDING JUST BECAUSE WE FELT THE INFLATIONARY SPIRAL OF THE TIMES WOULD GO ON AND ON INDEFINITELY. RATHER, IT WAS A CASE OF BUY THE TIMBER NOW SO THAT WE WOULD HAVE LOGS TO OPERATE WITH THREE TO FIVE YEARS IN

THE FUTURE. AS I POINTED OUT EARLIER, SALES PURCHASED TODAY DO NOT PROVIDE LOGS FOR THE NEAR-TERM, BUT ARE PURCHASED TO SUPPLY FUTURE LOG NEEDS.

THE REASONS BEHIND THE HIGH LEVELS TIMBER BIDDING REACHED ARE MANY AND VARIED, BUT THE PRIME FORCE BEHIND THIS BIDDING WAS THE UNITED STATES GOVERNMENT ITSELF. HIGH INFLATION WAS A FACT OF LIFE. GOVERNMENT ECONOMISTS PREDICTED MODERATE MORTGAGE INTEREST RATES AND A HOUSING BOOM IN THE DECADE OF THE '80S. SINCE GOVERNMENT ITSELF CONTROLLED THE AMOUNT OF TIMBER PUT UP FOR SALE EACH YEAR AND GAVE NO SIGN IT PLANNED TO INCREASE THE TIMBER SALE VOLUME TO MATCH ITS PREDICTIONS FOR INCREASED DEMAND FOR LUMBER AND PLYWOOD, THE RESULT WAS TO DRIVE THE PRICES BID TO UNREALISTICALLY HIGH LEVELS.

THAT SAME GOVERNMENT HAS NOW REVERSED ITS OWN POLICIES CONCERNING INFLATION, MORTGAGE RATES, AND ITS BIAS FOR HOUSING. WE NOW FIND OURSELVES IN A PERIOD OF DECLINING INFLATION, EXTRAORDINARILY HIGH INTEREST RATES, AND A RELEGATION OF HOUSING TO A LOW POSITION ON THE NATIONAL LIST OF PRIORITIES. THIS REORDERING OF NATIONAL PRIORITIES HAS LEFT OUR INDUSTRY (AND ESPECIALLY THE WESTERN INDUSTRY) HOLDING THE BAG THAT THE GOVERNMENT HELPED US FASHION. THAT BAG IS NOW OVERFLOWING WITH TIMBER SALE CONTRACTS TOO EXPENSIVE TO OPERATE NOW OR IN THE NEAR FUTURE. IF NO RELIEF FROM THESE UNREALISTIC CONTRACTS IS FORTHCOMING, MASSIVE CONTRACT DEFAULTS WILL BE THE RESULT. SUCH

DEFAULTS WILL HAVE A DEVASTATING EFFECT ON MANY COMMUNITIES IN THE WEST. LOCAL GOVERNMENTS SUCH AS OUR CITIES, COUNTIES, AND SCHOOL DISTRICTS WILL BE SUBJECTED TO ECONOMIC HAVOC UNPARALLELED SINCE THE GREAT DEPRESSION. THERE IS NO QUESTION THAT SOME SORT OF RELIEF FROM THE MOST ONEROUS OF THESE CONTRACTS WILL NOT ONLY HELP THE COMPANIES INVOLVED, BUT ALSO THE CITIZENS OF OUR TIMBER-DEPENDENT COMMUNITIES AND ALL LEVELS OF GOVERNMENT.

THE RELIEF OUR INDUSTRY ASKS FOR IS NOT A "BAIL OUT" AS IT HAS BEEN CHARACTERIZED BY SOME. WE ARE ASKING FOR OUR CONTRACTS WITH THE GOVERNMENT TO BE MODIFIED TO COMPENSATE FOR CHANGING CONDITIONS THAT THE GOVERNMENT BROUGHT ABOUT. SUCH CONTRACT CHANGES ARE NOT UNIQUE IN BUSINESS, NOR ARE THEY UNHEARD OF IN GOVERNMENT. LONG-TERM PROCUREMENT CONTRACTS OFTEN ARE MODIFIED WHEN UNEXPECTED CONDITIONS ARISE. IT IS IN THE BEST INTEREST OF BOTH PARTIES TO THESE CONTRACTS TO SEE ORDERLY MODIFICATION OF THE TERMS RATHER THAN PLUNGE ALL AFFECTED PARTIES INTO THE CHAOS THAT WILL SURELY ENSUE IF NO CHANGES ARE MADE.

THE QUESTIONS YOU ARE CONSIDERING HERE TODAY ARE, "WHAT KIND OF RELIEF IS APPROPRIATE? WHAT KIND OF RELIEF WILL SAVE THIS INDUSTRY AND THESE COMMUNITIES AND YET BE EQUITABLE TO ALL CONCERNED?" I AM HERE TO RECOMMEND THAT THE RELIEF LEGISLATION CONSIDERED CONTAIN THE FOLLOWING ELEMENTS:

TERMINATION OF CONTRACTS

TERMINATION OF AN APPROPRIATE VOLUME OF TIMBER UNDER CONTRACT WOULD PROVIDE IMMEDIATE RELIEF FOR ALL CONCERNED PARTIES. THIS WOULD ALLOW THE COMPANIES TERMINATING SUCH CONTRACTS TO PURCHASE LOWER PRICED SALES CURRENTLY ON THE MARKET AND IMMEDIATELY BEGIN HARVESTING AND MILLING OPERATIONS, THUS MAINTAINING EMPLOYMENT AND CONTINUING A FLOW OF REVENUE TO THE TREASURIES OF THE UNITED STATES AND THE VARIOUS COUNTIES INVOLVED. WE FEEL THAT AN APPROPRIATE LEVEL OF TERMINATIONS THAT SHOULD BE ALLOWED IS FORTY PERCENT OF THE TOTAL VOLUME OF FOREST SERVICE AND BUREAU OF LAND MANAGEMENT TIMBER UNDER CONTRACT ON JANUARY 1 OF THIS YEAR. FORTY PERCENT WOULD ALLOW THE COMPANIES TO DISPOSE OF THEIR HIGHEST PRICED TIMBER CONTRACTS AND YET HOLD THOSE SAME COMPANIES RESPONSIBLE FOR SOME OF THE CONTRACTS THEY HAVE. DURING MANY HOURS OF DISCUSSION AND NEGOTIATION WITH REPRESENTATIVES OF INDUSTRY FROM ALL OVER THE COUNTRY, THIS PERCENTAGE OF TERMINATIONS WAS ARRIVED AT AS BEING THE MOST EQUITABLE TO ALL.

EXTENSION OF CONTRACT TERM

COUPLED WITH THE FORTY PERCENT TERMINATIONS SHOULD BE A FIVE YEAR EXTENSION OF THE TIME LIMIT ON ALL CONTRACTS NOT TERMINATED. FOR THE AVERAGE WESTERN OPERATOR, FIVE YEARS ADDITIONAL TIME TO HARVEST THE REMAINING TIMBER UNDER CONTRACT

WILL BE NECESSARY TO "WORK OFF" THAT VOLUME OF HIGH PRICED TIMBER. SUCH A CONTRACT TERM ADJUSTMENT SHOULD HAVE REQUIREMENTS FOR PERIODIC PAYMENTS ON THE CONTRACTS OR OTHER INCENTIVES TO INSURE THE ORDERLY REMOVAL OF TIMBER IN THIS CATEGORY. HOWEVER, THESE PAYMENTS OR INCENTIVES SHOULD BE STRUCTURED IN A MANNER THAT WILL NOT FORCE WOOD ON A MARKET THAT CANNOT ACCEPT IT BECAUSE OF POOR MARKET CONDITIONS.

OTHER CONSIDERATIONS

SHOULD LEGISLATION CONTAINING THESE ELEMENTS BE ENACTED INTO LAW, IT IS IMPERATIVE THAT THE FOREST SERVICE AND BUREAU OF LAND MANAGEMENT USE CAUTION IN SETTING SALES LEVELS IN THE WEST. ALTHOUGH LONG-TERM DEMAND FOR BUILDING MATERIALS IS EXPECTED TO REBOUND IN THE COMING YEARS AND PERHAPS INCREASE TO LEVELS WE HAVE NOT YET EXPERIENCED, CAUTION SHOULD BE USED BY THESE AGENCIES TO "METER IN" THEIR PLANNED TIMBER SALES SO AS NOT TO FLOOD THE MARKET WITH LOW PRICED WOOD DURING A PERIOD OF LOW MARKET DEMAND, THEREBY DISRUPTING THE NORMAL MARKETING PATTERNS OF OUR INDUSTRY.

IN CONCLUSION, I WOULD LIKE TO RE-EMPHASIZE A FEW POINTS. FIRST, THE WESTERN FOREST PRODUCTS INDUSTRY AND THE COMMUNITIES DEPENDENT UPON THAT INDUSTRY FIND THEMSELVES IN AN UNPRECEDENTED POSITION WITH VAST VOLUMES OF FEDERAL TIMBER UNDER CONTRACT AT PRICES MUCH TOO HIGH TO OPERATE. THEY HAVE BEEN PUT IN THIS POSITION PRINCIPLY BY ACTIONS OR INACTIONS OF THE FEDERAL GOVERNMENT. FAILURE TO GRANT SUITABLE RELIEF TO THIS INDUSTRY WILL RESULT IN MASSIVE DEFAULTS ON TIMBER SALE CONTRACTS AND THE ULTIMATE BANKRUPTCY OF MANY COMPANIES. THESE DEFAULTS AND BANKRUPTCIES WILL DESTROY THE ECONOMIC BASE OF MANY, MANY COMMUNITIES THROUGHOUT THE WESTERN UNITED STATES. THIS GLOOMY SCENARIO DOES NOT HAVE TO OCCUR IF THE GOVERNMENT WILL RIGHT THIS WRONG WITH A SUITABLE RELIEF PACKAGE.

THANK YOU.

Senator **Hatfield**. I think your testimony has been very helpful. I would agree with the points that you've made, but I do feel that there is one area of this problem that should be looked at a little more carefully, and that is your role, you the timber industry, your role in getting yourselves into this predicament.

I think to be honest we have to recognize there has been some rather bizarre bidding practices in the past, and I don't want anyone to feel that this legislation I am proposing, if it's adopted, would in any way provide you with easy outs as a result of future practices in bidding.

For instance, the deficit sales have been so characteristic of many bids by timber industry in the past. The proposals that the administration is making about some up front money to discourage some of those sales in the future.

How do you feel about what the industry should do or could do as far as the greater responsibility and restraint on the industry to not engage in those practices in the future.

I understand all of the situations, inflation problems, and everything that goes on with this. I just feel that we ought to address this problem in a very frank and open manner this time, because I think some of the critics of this legislation have made a point as to what about the future bid practices.

Mr. **Newbry**. I think the industry has had a pretty good little botching lesson right now, and I think there will be some restraint just as a result of the experiences we've had in the last 36 months.

I think the thing that is not too well understood perhaps is the fact that most timber sold at the oral auction, which we think is the proper way incidentally, but an oral auction reflects instantly supply and demand situations, or at least perceived supply and demand situations. Those of us who are operating mills and in the business and expect to be in the business over a long period of time as was pointed out by Mr. Davis, we have to have timber out in front of us. If in your mind you perceive there is a shortage of supply, which certainly took place in the late seventies and early eighties, or 1979 and 1980, a demand for product that you perceive to be there and a mill that needed logs to fulfill that demand, it was pretty easy to overestimate the value of that timber under those conditions at an oral auction.

I don't mean to imply, and I certainly don't want to imply, that any other method of selling is better. That's just one of the things that happens.

Now, the proposals that have been made by the Secretary of Agriculture and Mr. Crowell representing them I think has been an honest attempt. But, very candidly, I don't know that they will do what they are expected to do except to keep some people out of the business. Those people who will be kept out are generally those small underfinanced people but legitimately belong in the business. It may keep some speculators out, but, you know, we talked about speculators, Senator, and we looked around and I've forgotten who said, "We looked at the enemy and they is us." That is kind of the way it is when you are bidding against each other, because we wanted and needed the timber.

Senator **Hatfield**. But it contributed to some of this problem we are facing today, that kind of bidding.

Mr. Newbry. Certainly, but we could not buy for less than the top bid and we needed the timber. At least we assumed that we were going to need the timber to operate our mills.

Now, none of us foresaw what has happened. We've been through these experiences time and time again since World War II. Our business is cyclical in nature, but we've never suffered this protracted period of time. If this had been a V-shaped economic cycle, probably we wouldn't be here.

Mr. Sohn. Senator, may I enter a comment? I believe the system itself has to be blamed in part for the results it created unless we bid under the conditions that exist today.

We, as Mr. Davis and some of us, cannot operate. The system is set up to achieve the highest price possible for timber in our national forests, and when we operate with no alternative supplies—and in our case in southern Oregon most people from 80 to 90 to 95 percent of their needs are covered, but of the timber sales, you must bid or go out of business.

The structure of the whole systen allows anyone to bid. We are trying to overcome what has been defined as speculator bidders. We have to look at some other means to see, to get a more equitable system for this national resource. I believe it might behoove us to look at Canada somewhat to see how they have done it to support an industry for the benefit of the people of the areas where these resources are produced.

Senator Hatfield. What would you recommend to be the level of the timber sales for 1983? What would you recommend is the level in light of the current market situation?

Mr. Davis. Senator, that is a very difficult question because we can't see into the future 4 or 5 years to see what the demand levels are going to be. I would suggest if termination, as the industry has suggested, comes about and if extension, as the industry has suggested, comes about, the timber sale level should not be tampered with too drastically. By too drastically I mean perhaps in 1983 that we should be in the neighborhood of 4.8, 4.9 or 5 billion board feet in region six, because if the administration's program does have effect, we are assured we are going to see a change in the situation as we now know it sometime downstream. The housing market will rebound. The unfortunate thing is that it has not rebounded for 3 years, and it may be another 3 before we are able to take advantage of that market.

Senator Hatfield. Gentlemen, in 1981 the Forest Service analyzed the timber sales situation, and they estimated that the volume of uncut national forest timber under contract in stumpage values exceeded the producer's break-even point by 88 percent, 80 percent in northern California.

Do you agree? What is the situation, in your opinion, today?

Mr. Johnson. Senator, there is a table in the industry position that was entered for the record. Appendix A in that paper shows the remaining volume under contract of Forest Service timber in western Oregon as of March 31 of this year. It lists by percentage of delivered cost.

To give you an idea of where we stand today, I think a good estimated cost of a log that we could start to break even on is around $200 a thousand. If you would look at that table you will find that there is one-half of 1 percent of that total volume of almost 8 million feet that would deliver in at under $239. I think that's a very graphic illustration of the fact that almost all of the timber that was under contract at that time, the Forest Service timber, was at values that is many times beyond what our industry can operate on today.

Senator **Hatfield**. Mr. Davis, your company has operations throughout the country, including Arkansas and Louisiana. Tell me about those concerns from the other regions in which you are presently operating as to the impact of this particular bill of working to either their advantage or disadvantage?

Mr. **Davis**. I can't speak for all the operators in the Southeastern United States. Willamette Industries relies on Federal timber in those areas for a relatively small percentage of its total volume. I think somewhere around 10 percent of our total usage comes from Government lands. The bulk of the timber in the Southeast belongs to small private woodland owners and timber sale contracts are characterized as being short-term propositions with those people. So the impact of the relief legislation directly on the bulk of the industry in the Southeast is not as great as it's going to be in the West. As I understand the concern from some of the southeastern operators is that because of the short-term private timber sales that they purchase and at fixed prices, generally cash up front for those kinds of sales, that they feel that their region will be disadvantaged in the national market should the western operators, who are generally heavily dependent on Federal timber, should they get substantial relief from the contracts that they now hold.

I think somewhere in that area lies the genesis of our problem with the southeast.

Senator **Hatfield**. Senator Bumpers, do you have any questions?

Senator **Bumpers**. Just a couple if I may. I apologize for being late. This is an important hearing and I'm sorry there isn't better attendance and more concern on the part of the members of the committee.

Let me say first of all, gentlemen, that if this bill can address just two or three concerns that I have, I certainly would support it.

At first I had unequivocal reservations about it. I still do about the road credits. If that issue were to be insisted upon, in my opinion it could very well torpedo our whole effort.

Senator **Hatfield**. That's not included.

Senator **Bumpers**. I know, and I appreciate it. As I say, it's not included in either bill; is that correct?

Senator **Hatfield**. That's correct.

Senator **Bumpers**. Under Senator Hatfield's bill there is a term used called economic hardship. Is that defined in the bill, Mr. Chairman?

Senator **Hatfield**. No.

Senator **Bumpers**. Let me ask Mr. Davis, what would you consider an economic hardship?

Mr. **Davis**. Senator we were somewhat concerned by that same phrase in the bill. We did not know what was trying to be arrived at with that statement either. We feel that the economic hardship measure should be applied to the industry as a whole. An economic hardship is when the great majority of the timber held under contract from these agencies by the industry is held at levels that would lose money and, in fact, in many cases bankrupt the companies involved. I think it depends on the set of numbers you look at. I know for one of the forests in the West that we operate in, the Willamette National Forest, it is estimated by the Forest Service that 73 percent of the volume held by the companies there is definitely in a losing situation. We think that demonstrates economic hardship.

Senator **Hatfield**. I think that is part of the legislative history we were making here a little bit earlier. I wanted to make it very clear and perhaps more precise language in the bill should spell it out, but I want to make it very clear that the bizarre bidding practices in the future on the part of individual companies, this bill could not be used to bail them out so to speak. They should be responsible for those practices. We are talking about an industrywide situation that would have to be found by the Secretaries in order to utilize this particular kind of authority.

I'd be very pleased to consider language that would nail that down more precisely than what it appears here. I was anxious to make that legislative history this morning so that it could not be used for that purpose by individual contractors.

Senator **Bumpers**. I am inclined to agree with Mr. Davis. I don't think you even need a term like economic hardship. Everybody that I know in your industry is certainly under economic stress, and I'd be reluctant to confine it to some that are harder pressed than others. We are talking about industrywide. I think that's appropriate.

Let me ask any of you about what your druthers are on a couple of revisions here. Do you want termination of some percentage of your contracts on the one hand, and then an extension on the balance? What is your choice? You've probably already testified to this, but since I was not here I must ask you to repeat it.

Mr. **Newbry**. We did not discuss that, and it's a good question that needs to be discussed.

I think at this juncture we really need both for this reason. If we are going to an extension program, we are of the opinion that that extension program would have to be of at least 10 years duration in order to work out.

Senator **Bumpers**. Ten years?

Mr. **Newbry**. Yes, sir. And we think that's not a good thing to do for this reason, that it almost puts the management of the national forest in the hands of the timber contract holders. It would mean that we as a company owning those contracts, extending them until we could accommodate them, would deny the proper management of the total resource.

For example, if we had a block of timber under contract for which impacted a piece of timber behind it and we just extended that contract indefinitely, that would just screw up the whole system.

We think there has to be a combination of both to do the job. I want to say this, too, I appreciate your questions about the economic hardship. We worry about that, too.

Senator **Bumpers**. Let me ask Mr. Davis, did you say that your company gets 10 percent of its timber from the national forest?

Mr. **Davis**. That was in reference to the Southeastern United States, Senator. In the West we get approximately 40 percent of our timber from either the national forest or the Bureau of Land Management.

Senator **Bumpers**. How much of it do you get from private sources?

Mr. **Davis**. I can't speak with great authority for the Southeast. It's my understanding that probably close to 40 percent of the timber that we utilize in the Southeast comes from the small woodland owner.

Senator **Bumpers**. And the balance is from land that you own I assume?

Mr. **Davis**. That's correct, or long-term contracts with other industrial concerns.

Senator **Bumpers**. What are your contracting practices in the private sector? If I had 100 acres of choice pine that you were interested in, what kind of a contract would you normally ask for with me? Would you want 5 years in which to harvest the timber, or what?

Mr. **Davis**. We would ask you to name your poison if it was your contract. The accepted practice with most private landowners that we deal with is to either ask for a substantial downpayment at the beginning of the contract, or in some cases total payment within the early months of the contract. The contracts generally run from 2 to as long as 5 or 6 years. Those would be considered a long-term small private contract. Those contracts—at least it has been my experience in the West where we buy from both the Government and the private sources—generally sell for less money and have less burdensome contract requirements than do the Government sales. But they are characterized by cash up front pretty much.

Senator **Bumpers**. Well, for example, in most of those contracts you are committed absolutely to take the timber. In other words, it's not like government contracts where you posted bond or something. If you don't take them, you just forfeit your bond.

Mr. **Davis**. That's true, although that's not the exact accurate characterization of our relationship with the Government. There is more to it than just forfeiting our bond. We are in that kind of a relationship. We do have to take the timber, but you would be surprised to know that some of the companies with which we do business with, from whom we buy timber, have come to us and asked us if we would like to have additional time to complete those contracts due to the economic conditions that we are in.

Senator **Bumpers**. Mr. Newbry, let me ask you this. Just give me an example of one of the cases where your company has contracted for timber at some price and that timber is now priced at some amount less than that. I mean are we talking about the difference between $500 a thousand as oppose to $200 in current markets? What are we talking about?

Mr. **Newbry**. I can't give you any specific examples, but we have under contract in our company sales that have an average price from $400 to $500 on the stump, which means it's going to cost us another $100 to get them into town to the mill.

So you've got $500 to $600 timber. Right now it's about $225 to break even, so that gives you an idea of the kinds of problems that we are faced with.

The situation is now that most of the contracts outstanding, with the exception of those that may have been bid in the year 1982, are pretty much in that category, because the lesser expensive ones have already been harvested.

Senator **Bumpers**. Mr. Chairman, as I understand it, the 40 percent revision is not in either bill now; is that correct?

Senator **Hatfield**. Correct.

Senator **Bumpers**. Has that been industry position? Has industry decided that it does not want the 40-percent provision, or how did that happen to get thrown by the wayside?

Senator **Hatfield**. We did not want to lock down into very specific formulas with this current situation, not knowing what future situations may occur. I wanted to describe the precise approach in a proposal that was never introduced in a concept that floated around here that Senator McClure and I were working on. It became very obvious that it could not apply to as broad a base of the industry as we wanted it to. Therefore, I came forth with this very general authorization to empower the agency more flexibility to deal with these problems with combinations rather than one formula attempting to apply to the total industry throughout all the regions. We wanted to make it as national in character as possible, and so we kept these various proposals, the three basic ones on the second page of the bill, termination, extension, modification of price in such phrases that would give the agency great flexibility to deal with the problem.

Mr. **Johnson**. Senator Bumpers, I would like to speak to that subject. The 40 percent came out of the negotiations that the four people that Senator Hatfield appointed to meet with the people from Idaho. We had some very hard negotiations, and we finally did compromise on 40 percent.

I was the member of our group that was the most reluctant to do so. In my testimony today I stated I think absolute minimum of 60-percent termination is necessary. I think it is particularly necessary for people like myself, the independents that are almost entirely dependent on Federal timber.

The burden of those contracts that we have, if we can't terminate more than 40 percent, that remaining volume will be many years of metering that back in before we can even come to any semblance of a profitable picture.

In April, at the annual meeting of the Northwest Timber Association which is made up of about 30 operations that are all almost totally dependent on public timber, I surveyed all of the membership and they felt that an absolute minimum of 60 percent was all that was feasible.

As I say, we finally negotiated and compromised to 40 percent because that was better than nothing.

Senator **Bumpers**. Let me express my concern about this, because I have to be a little parochial. I'm concerned about the southern timber industry. This is a much more acute problem in the West than I think it is in my section of the country, because we have so many small mills down there that are not as dramatically affected.

But let me ask you to comment on this. My concern is if we allow the industry to terminate all of the contracts they wanted to, some might terminate all of them. Some might terminate 20 percent, depending on what their contracts were. My concern is what the Forest Service is going to do with that timber that is turned back and the contracts are terminated. For example, let say you have 1 million board feet contracted at $500 and you decide to terminate, say, 60 percent of that, or 600,000 feet. And let's say they are going to turn around and let you rebid on that and you are going to bid $200 and get it for that. That timber is still going to be cut. It is still going to have an impact on the industry, which is to say we are in an excess situation right now. We are producing a lot more than there is demand for. That's not totally true. Obviously people don't produce when there is nobody to buy, but what I'm concerned about is depressing the market, or putting the people in the West in a much more favorable competitive position to the detriment of my people in the South.

Mr. **Johnson**. I understand your concern, and we share that concern. We do not want to create a situation where there is a surplus and we are going to be trying to produce into an inelastic market that will not handle it. We can't stand to have the markets we sell into depressed any further than they are also.

I think a logical solution to this is that the Federal Government, the Forest Service and the Bureau of Land Management do start some kind of a program where they take, let's call this surplus volume, and they put that on the shelf for a period of time; and they let that sit there until such time as this demand does come back up, which we are assuming that it will at some point. At that time then start metering that volume back into the system to keep prices from skyrocketing again so that the Nation can buy lumber at prices that will build affordable homes.

Senator **Hatfield**. Let me point out that if we do not, that is precisely what will happen, because on the defaulted contracts the Forest Service must put the timber back into the market.

Consequently, this is another purpose for this bill. It is to prevent that kind of overflooding the market with that kind of timber. If we do nothing, as has been recommended by some, then that's precisely what will happen as a result of defaulting the contract.

Senator **Bumpers**. Mr. Chairman, I appreciate that. I will be happy to hear from you. We have other panels and I don't want to take too much time. There will be others to whom I can address these questions.

Senator **Hatfield**. I am delighted to have the Senator from Arkansas here. We will excuse this panel. We will have the next panel come forward.

Gentlemen, we have your complete statements, if you would proceed to summarize at this time.

STATEMENT OF WILLIAM H. STIMPSON, PRESIDENT, NATIONAL FOREST PRODUCTS ASSOCIATION

Mr. **Stimpson**. Mr. Chairman, I am Billy Stimpson, president of the National Forest Products Association. I am also chairman of the board of the Gulf Lumber Co. located in Mobile, Ala.

The National Forest Products is headquartered in Washington, D.C., and is a federation of 29 regional associations and 15 direct member companies.

NFPA represents the growers, manufacturers, and wholesale distributers of solid wood products throughout the United States. I am here today to represent the NFPA on the issue of Federal-timber-sale contract modification as it is treated by S. 2805, to provide for the termination, extension or modification of Federal-timber-sale contracts, and S. 2818, a bill to provide for adjustment of termination dates of Federal-timber-sale contracts.

NFPA welcomes this hearing on legislation dealing with general concepts of relief for purchasers of Federal timber. We applaud your helpful efforts in dealing with serious problems stemming from the recent long period of economic decline, and a depressed market for timber and other wood products.

The NFPA has served as a forum, focal point, and clearinghouse for the various industry views on the issue for most of this year. With some understandable and strong exceptions, there has been a growing trend toward agreement that a legislative solution is preferable to the uncertain, chaotic, and long-drawn-out result that is likely should legislation not be enacted.

At this time, however, NFPA members have widely differing views on the concept of relief and the specific provisions of the bill and NFPA is not in a position to support S. 2805 and S. 2818.

However, there has been a growing agreement within the industry on some major elements of any legislative package. These are: One, termination of up to 40 percent of a purchaser's volume under contract; and, two, a 5-year contract term adjustment for sales that are not terminated.

Also, many feel strongly that any action taken by the Government to alleviate this difficult situation should not distort the normal competitive market system. Because of the extraordinarily large volume of Federal timber under contract in the Northwest, there is a fear that terminated or defaulted contracts could force large amounts of timber on the national market all at once when national consumption remains at historic lows. Without increased demand, increased flows of timber from one section of the country could affect markets in another section. Thus, there is agreement anong those supporting legislation that the bill should spell out that terminated or defaulted timber be marketed by the Government in an orderly way.

However, there is not yet agreement as to how guidelines for this concept should be spelled out.

Another serious problem area is the difference between the timber appraisal system in the southern region and that which applies in other Forest Service regions. In this depressed market the transaction evidence system in the South lags well behind the actual and product values which are more promptly and accurately reflected in the western residual value system. This serious differential must be corrected.

Federal timber products is a primary industry in many Western States, with a large segment of the industry dependent on national forest timber for its raw material supply. But this is a national problem, and not just a western concern. Although private timber predominates in the South, the possibility of a glut of timber flooding a static national market could affect traditional southern markets as well.

Without a legislated solution, purchasers may have little choice but to default on many contracts. When and how this occurs is not predictable. Substantial defaults could disrupt normal market patterns because of determine damages, the defaulted timber would be readvertised and resold immediately. Lawsuits would be likely, and damage collection uncertain. It seems clear that without legislative relief or dramatic market improvement many companies in the timber industry, particularly the small independent operators who own little or no timber, will be in more than normal jeopardy.

S. 2818 would embrace the concept of contract term adjustment which has been included in various drafts considered by the industry. This concept has wide support within the industry, but others believe this provision alone will not solve the fundamental problems.

S. 2805 would provide authority for termination of an unspecified portion of sales held by a purchaser. The 40-percent limitation that has emerged with considerable industry support is quite important to many operators.

Also the bill does not include provisions relating to purchaser credit, a vital concern for many operators in the intermountain region. The price rollback provision is strongly opposed by parts of the industry. It reduces the price of timber but still implies a requirement to immediately harvest that timber despite very low demand for lumber.

During these hearings you will hear a wide range of views from the forest industry. Your record will be full, and the issues clarified. We urge you to continue your leadership role in trying to forge a solution to this catastrophic problem. We pledge our support during the process in aiding the Congress and the industry in finding the best approach to the issue.

I will be glad to answer any questions you may have.

Senator HATFIELD. Thank you.

[The prepared statement of Mr. Stimpson follows:]

NATIONAL FOREST PRODUCTS ASSOCIATION
1619 Massachusetts Avenue, N. W., Washington, D. C. 20036

STATEMENT OF
WILLIAM H. STIMPSON
PRESIDENT OF THE
NATIONAL FOREST PRODUCTS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER
OF THE
COMMITTEES ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
ON
TIMBER SALE CONTRACT MODIFICATION
AUGUST 16, 1982

I am William H. Stimpson, President of the National Forest Products Association. I am also Chairman of the Board of Gulf Lumber Company located in Mobile, Alabama.

Headquartered in Washington, D.C., NFPA is a federation of twenty-nine regional, product and species associations and fifteen direct member companies. NFPA represents the growers, manufacturers, and wholesale distributers of solid wood products throughout the United States. I am here today to represent the NFPA on the issue of federal timber sale contract modification as it is treated by S.2805, to provide for the termination, extension or modification of Federal timber sale contracts, and S.2818, a bill to provide for adjustment of termination dates of federal timber sale contracts.

NFPA welcomes this hearing on legislation dealing with general concepts of relief for purchasers of federal timber. We applaud your helpful efforts in dealing with serious problems stemming from the recent long period of economic decline, and a depressed market for timber and other wood products. These factors result from a series of government actions which contributed to both inflation and extraordinarily high interest rates. In the face of this dismal economic situation, many purchasers must deal with the prospects of completion of federal timber sale contracts, which have purchase prices too far above break-even points in today's markets. The potential impact of this situation on the very survival of many producers is well covered in Senator Hatfield's introductory statement.

The NFPA has served as a forum, focal point and clearinghouse for the various industry views on the issue for most of this year. With some understandable and strong exceptions, there has been a growing trend toward agreement that a legislative solution is preferable to the uncertain, chaotic, and long drawn out result that is likely should legislation not be enacted.

At this time, however, NFPA members have widely differing views on the concept of relief and the specific provisions of the bill, and NFPA is not in a position to support S.2805 or S.2818.

However, there has been a growing agreement within the industry on some major elements of any legislative package.

These are: (1) Termination of up to 40% of a Purchaser's volume under contract, and (2) a five-year contract term adjustment for sales that are not terminated.

Also, many feel strongly that any action taken by the government to alleviate this difficult situation should not distort the normal competitive market system. Because of the extraordinarily large volume of federal timber under contract in the northwest, there is fear that terminated or defaulted contracts could force large amounts of timber on the national market all at once when national consumption remains at historic lows. Without increased demand, increased flows of timber from one section of the country could affect markets in another section. Thus, there is agreement among those supporting legislation that the bill should spell out that terminated or defaulted timber be marketed by the Government in an orderly way. However, there is not yet agreement as to how guidelines for this concept should be spelled out.

Before looking at S.2805 and S.2818, I would like to give you some background on the current problem and the reasons why there is a growing pressure in the industry for a legislative solution.

BACKGROUND

In the Fall of 1981, Purchasers of federal timber in the west and the Forest Service became concerned about the increasing volume of timber under contract that was priced too high to be cut under current or future market conditions. The volume of uncut timber under contract increased. This occurred because the falloff in demand for wood products reduced end product prices to the point where Purchasers could not afford to harvest timber without sustaining substantial financial losses.

High Contract Costs

Bid values for national forest timber rose dramatically in the 1970's. For example, prices for Douglas-fir, the principal species in the Pacific Northwest, rose from an average of $41.90 per thousand board feet (MBF) in 1970 to $432.20 per MBF in 1980, a 931% increase. This increase resulted from a myriad of conditions. These include a perceived shortage of available timber due to uncertainties over Federal wilderness policies and land allocation for other non-timber uses, in addition to increased competition for available timber supply.

The Forest Service projected in the early 1970's that housing starts would average 2.6 million throughout the decade of the 1980's. Some Purchasers believed these and other factors required them to pay high prices for raw materials or be without a supply of timber for their mills. Thus, for a decade inflation and the threat of shortages encouraged purchasers to bid higher than current markets allowed and still operate profitably because most sales were not cut until 2-5 years later.

Housing Starts Decline

In the Fall of 1979, the Federal Reserve Board tightened the growth of the money supply in an effort to control inflation. This action resulted in higher borrowing rates as competition increased for available money, particularly with huge federal defaults. The traditional systems of home mortgage financing were changed. Long-term mortgages, the primary lending vehicle for home financing, fell victim to increasing rates. Most of the contracts that are currently uneconomic to operate were bid prior to this major reversal of federal housing and monetary policy.

As interest rates rose, home sales fell. Housing starts dropped from an average of 1.77 million during the decade of the 1970's to 1.1 million in 1981. This drop had a devastating effect on the timber industry nationwide. Roughly half of the softwood sawtimber produced in the United States is used for new home construction. As housing demand diminished, the demand for wood products fell with it. The situation worsened in 1982.

The reduced demand for wood has caused end product prices to drop to the point where many timber purchasers can not afford to manufacture lumber and plywood without incurring substantial losses. As a result, timber that had been purchased under the high bid prices of the late 1970's is left standing in the national forests unharvested.

Timber Sale Contracts

The Forest Service sells public timber from the national forests in parcels on a competitive bid basis. When a high bidder on a timber sale signs a contract for a parcel of timber, he agrees to harvest the timber within a stated time period. The length of contract varies by geographical region and the amount of timber included in the sale. Road building and environmental safeguards can increase the term of a contract by one or more years. A typical contract length in the Pacific Northwest is 3 to 4 years.

The Forest Service's interest is to have contracts carried out. It recently recognized, however, that many timber sale contracts would be defaulted unless the terms were adjusted. Accordingly, it announced in early 1980 that a one year extension of contracts would be provided due to the severe falloff in demand for wood products. Throughout 1980 and most of 1981, market conditions did not improve. In response, the Forest Service announced in October, 1981 that it would offer a two-year extension of existing contracts. By May of 1982, market conditions had deteriorated to the point where many purchasers could not pay contract extension deposits, a requirement of extension. To prevent further hardship, the Forest Service granted a waiver of extension deposits but required that interest payments be made or be accrued on unpaid balances owed to the government.

This action, though temporarily favorable to many federal timber buyers, only delays the serious problems that still confront them.

Another serious problem area is the difference between the timber appraisal system in the Southern Region and that which applies in other Forest Service Regions. In this depressed market the "transaction evidence" system in the South lags well behind the actual end product values which are more promptly and accurately reflected in the western "residual value" system. This serious differential must be corrected.

Why Contract Relief is Proposed

Federal timber production is a primary industry in many Western states, with a large segment of the industry dependent on national forest timber for its raw material supply. But this is a national problem, and not just a western concern. Although private timber predominates in the South, the possibility of a glut' of timber flooding a static national market could affect traditional southern markets as well.

Without a legislated solution, purchasers may have little choice but to default on many contracts. When and how this occurs is not predictable. Substantial defaults could disrupt normal market patterns because to determine damages, the defaulted timber would be readvertised and resold immediately. Law suits would be likely, and damage collection uncertain. It seems clear that without legislative relief or dramatic market improvement many companies in the timber industry, particularly the small independent operators who own little or no timber, will be in more than normal jeopardy.

The Provisions of S.2818

S.2818 would embrace the concept of contract term adjustment which has been included in various drafts considered by the industry. This concept has wide support within the industry, but others believe this provision alone will not solve the fundamental problems.

The Provisions of S.2805

S.2805 would provide authority for termination of an unspecified portion of sales held by a purchaser. The 40% limitation that has emerged with considerable industry support is quite important to many operators. Also the bill does not include provisions relating to purchaser credit, a vital concern for many operators in the intermountain region. The "price rollback" provision is strongly opposed by parts of the industry. It reduces the price of timber but still implies a requirement to immediately harvest that timber despite very low demand for lumber.

CONCLUSION

During these hearings you will hear a wide range of views from the forest industry. Your record will be full, and the issues clarified. We urge you to continue your leadership role in trying to forge a solution to this catastrophic problem. We pledge our support during the process in aiding the Congress and the industry in finding the best approach to the issue.

I will be glad to answer any questions you may have.

STATEMENT OF REXFORD A. RESLER, EXECUTIVE VICE PRESIDENT, AMERICAN FORESTRY ASSOCIATION

Mr. **Resler**. Thank you, Mr. Chairman. I would clarify the record slightly. I do represent the American Forestry Association, one of the Nation's oldest citizens' conservation groups. We are not a trade association.

Having said that, I would like to summarize my statement. I can say we have concluded to support a position very similar to Mr. Stimpson.

I would like to leave my testimony and just touch on a few points. First off, I believe that the Government intervention in the process is absolutely necessary, because, among other things, the Government has been partly the cause of the problem that you outlined earlier.

I could point to a number of specifics, the least of which would include uncertainty of timber supplies. Successive administrations have considered investments in forest productivity on the Federal lands as an expense, not a long-term capital investment. There has been a great deal of uncertainty about the availability of timber lands for any number of reasons.

A decade or more of rising inflation built in an expectation that purchasers of Federal timber would be able to recoup on the desperation bids they were submitting. Changes in the rules guiding thrift institutions are also affected and the cost of mortgage money. Finally I would identify that the Government and private sources as well have been projecting annual housing starts at 1.8 to 2-plus million annually, all of which have contributed to the logic that even these high priced sales that are being bought and bid in highly competitive pricing would sooner or later be able to work their way out of it. It obviously is not happening.

You have introduced legislation which would take a more general approach in Senate bill 2805. I'd like to touch briefly on a couple of points included in the industry's proposed bill which you were instrumental in.

I'd like to reemphasize that which has already been said. If nothing is done, the Forest Service must reoffer those sales in rather substantial quantities as rapidly as they become default, the only means of determining what the nature of those, quote, damages are. I would argue that some of the estimates of damages that the Federal Government would suffer in the long run are quite hypothetical for the simple reason that you can't get blood out of a lot of these turnips. The money will just not be there to cover those damages.

We are also concerned about the fact that major defaults would reduce the production capacity, particularly in the Western States; We would see a substantial consolidation of the production capacity and a few in with the larger corporations.

If nothing is done, we will see a dumping of timber on the market, as Mr. Johnson and others have pointed out.

We are not very supportive of the idea of price rollbacks because there is no way to cope with the inequities that are built in. We support the logic of extension, contract term extension, for the simple reason that substantial amounts of that volume can be brought back on the market at some time in the future by mixing.

One of the gentlemen in the previous panel pointed out the logical drawback to that proposition, however, and that is that the transportation system on the national forest is developed from sale to sale. The future offerings that are behind extended sales will be delayed, the programs will be disruptive which leads us to believe that we must support the logic of contract terminations.

Nevertheless, there should be a substantial number of contract terminations without penalty so that jobs can be generated by bringing some of that volume back on board to affordable prices.

I would like to suggest, Mr. Chairman, the problem I have with Senate bill 2805, that it provides broad authorities to the administration, specifically to the Secretaries of Agriculture and Interior. This would leave the Forest Service in the position of trying to develop rules and regulations on how these terminations, contract term extensions, and what have you will be applied.

I submit it may be extremely difficult to get those rules and regulations through the administration, particularly the Office of Management and Budget. I can understand that probably the only relief that can be gotten through Congress in this session is some kind of general approach such as you are undertaking, but I would encourage this committee to question the administration witnesses on what they would do once that broad legislative authority is provided to the Secretaries of Agriculture and Interior. We prefer to see more explicit legislation, but under the circumstances this generalized relief may be the only thing that can be gotten through in time.

[The prepared statement of Mr. Resler follows:]

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Subcommittee on Public Lands and Reserved Water
Committee on Energy and Natural Resources
United States Senate

A Statement By

Rexford A. Resler
Executive Vice President
The American Forestry Association

August 16, 1982

I am Rexford A. Resler, Executive Vice President of The American Forestry Association. The American Forestry Association is a national citizens' conservation organization formed in 1875.

We appreciate the opportunity to testify on legislation which would modify certain contractual conditions between the Secretaries of Agriculture and Interior and purchasers of federal timber. Two bills, to my knowledge, S.2805 and S.2818, have been introduced thus far in the Senate which would provide differing forms of relief.

First, I wish to address the unique situation which prompts these and other proposals for legislative relief.

My instincts lead me to believe that contracts entered between buyer and seller--in this case, purchasers of federal timber and the federal government--should not be subjected to tampering in mid-course. Changes of conditions which were understood at the time of sale invariably lead to inequities among parties who were competing under well-established rules. Those rules should not be changed, whether by legislation or exercise of Administration authority, without due regard to the consequences of disrupting a highly competitive market or for the inequities such changes may create among participants. These hearings, and others, will no doubt serve to identify those adverse consequences.

Be that as it may, we believe that extenuating circumstances justify intervention to moderate the dire effects occasioned by economic conditions which few people, if any, could have predicted two to three years ago.

The record is all too clear of excessive unemployment in home building and in the forest products industry; of wide scale mill closures; increasing rates of bankruptcy; and the very real prospects of still greater business collapse, particularly among independent operators. In my 30 years as a forestry professional, I have never encountered the degree of concern, even outright fear, about the immediate future that

I find today among independent operators and major corporations alike. While one might argue that those who bid, unwisely perhaps, to secure federal timber should now suffer the consequences of their decisions, I would argue that the government was an unwitting partner and in good measure responsible for the circumstances which brought on a major depression in the forest products industry.

One of those factors was uncertainty of supply of raw material. Successive Administrations have considered investments in forest productivity on the federal lands as an expense, not a long-term capital investment. As a result, investments that would produce ever-expanding supplies of federal timber, with full attention to realistic environmental safeguards, has been slighted consistently in Administration budget requests. Much of what has been achieved is the result of Congressional action to rectify the shortcomings of Presidential budget requests. Even so, the National Forest System has been offering timber sales for the past decade below the sustained yield capacity by 10 to 15 percent. And if the proper investments had been made to increase growth, those sustained yield harvest levels could have been steadily increasing.

Add to that reality uncertainty about the availability of federal lands for timber production and other commodity uses, caused by legal and political hassles over the disposition of roadless areas, and one commences to see why competitive bidding got out of hand. I believe Congress must accept a share of responsibility for its reluctance to bite the bullet--to decide what ought to be in the Wilderness System and what ought to be managed for non-wilderness purposes. Only Congress can resolve those issues.

A decade or more of rising inflation built in an expectation that purchasers of federal timber would be able to recoup on the desperation bids they were submitting. Many gambled on the continued effects of an inflationary spiral--and lost.

We have experienced major changes in the rules guiding thrift institutions which has affected the availability and cost of mortgage money. Estimates of annual housing starts for the decade of the 1980's in the range of 2-plus million, projected by both government and private resources, became conventional wisdom and influenced the attitudes and judgments of producers, investors, and market competitors.

As interest rates ballooned to the 20 percent prime rate, and as mortgage money shrunk, housing markets plummeted at unprecedented rates, drying up not only the housing industry but causing a major decline in markets for building materials. The drop in inflation, an event most urgently sought by us all, has exacerbated the serious problems faced by the entire forest products industry. The most serious problems, however, are associated with the federal timber sale contracts in the Pacific Northwest, many of which are economically inoperable under current market conditions, or conditions which may be realistically expected in the next two or three years.

If no action is taken to relieve the current situation, there will be survivors, of course, but I would expect to see a serious decline in mill capacity which would adversely affect consumer prices when the economy recovers and the pent-up demand for housing is released. I would expect to see a substantial consolidation of that production capacity in the hands of fewer large corporations. The high cost of capital will no doubt result in more consolidations over time, but that trend ought not be accelerated by government actions.

Because government policies and actions, or inaction as the case may be, are partly at fault--and because it is in our general interest to maintain a viable and competitive forest products industry--we conclude that some form of government action is not only warranted, it is urgently needed.

The several legislative remedies under consideration in these hearings should provide a basis for positive action. I am persuaded that prompt Congressional action is needed to relieve an untenable situation. Without the Administration's support, nothing of value will be accomplished in a timely manner. I hope that a workable compromise can be struck with the White House that will provide prompt relief.

I wish to comment on some of the remedies being proposed.

Further liberalization of extension policy permissible under the contracts is not likely to help. It will not put people back to work or ease the economic circumstances of timber-dependent communities. It will simply put off the problem a bit longer. Furthermore, by delaying action on extended sales, the orderly development of future sale offerings dependent on access roads to be constructed on extended sales would, of course, be disrupted and delayed. In time, such extended sales could conceivably be operated, but that is a slim reed for a drowning operator.

Price roll-backs, while attractive on the surface and would help those who have contracts, create serious inequities among competitors in the market place. We believe this option to be grossly unfair.

Contract term adjustments going beyond those permitted under the contract requires legislation. Such adjustments have the same drawbacks as contract extensions, that is, putting off the problem until some future time and disrupting orderly development of future offerings. However, term adjustments for periods up to 5 years would permit purchasers to mix high-priced sales with newer and presumably lower priced federal sales, or timber from other sources including fee timber, thereby permitting purchasers to operate those adjusted sales when market conditions improve. So we support the logic of authorizing contract term adjustments under carefully prescribed conditions.

Contract terminations without penalty is a drastic step used only once previously to my knowledge. We came to the conclusion, reluctantly, that contract terminations without penalty are warranted by current dire circumstances. The alternatives of; (1) extensions of time, or (2) damage settlements on expired contracts, will not solve the immediate problem. It is our judgment that some portion of economically inoperable sales should be terminated as the most effective means for: (1) getting inoperable sales back on the market at operable prices; (2) salvaging the investment of the agencies in sales preparation work; (3) avoiding the high cost of damage appraisals and litigation and delay that would be incurred; (4) reducing the prospects of bankruptcies or takeover of independent operators; and (5) hastening the time when out-of-work people in the woods, mills, and dependent communities can be put back to work.

One can argue that the federal treasury would lose income as a result of foregoing damages on terminated sales. The likelihood is that most of the assessed damages would never be recovered anyway. Lengthy litigation would forestall collection under the "best of circumstances" and little is to be gained through bankruptcy settlements. The cost to the federal government of trying to collect those damages, the consequent effects on the general economy, and eventually on the consumer, leads me to believe that the apparent loss isn't worth the chips.

We favor writing off the loss, under carefully defined rules of law, for some appropriate portion of inoperable sales. The conditions should be prescribed in law as opposed to authorizing the Secretaries of Agriculture and Interior to define those rules. If, as we believe, this remedy is warranted as a matter of public policy, then those conditions ought to be defined in law.

We believe that such terminated sales should be metered back on the market as a part of the agencies regular sales program in ways and amounts that do not change or adversely affect markets in other parts of the country. If, as these terminated sales are brought back on the market, the Administration will support the advance preparation of new sales, it would be possible to expand the volume of timber prepared and held "on the shelf" so that for the first time in my recollection, the agencies could respond to surges in demand.

On a related matter of cash flow, discussion has centered around the need for treating earned purchaser road credits as cash, or at least authorizing the transfer of earned credits among sales on different National Forests. We do not favor treating earned road credits as cash whereby credits could be transferred to cover any cash obligation, but we do support the logic that earned credits be transferred to any sale being operated by purchaser to permit recovery of those front end costs. Considering the high interest rates everyone is facing, it makes sense to authorize a means that would permit more rapid recovery of earned road credits. After all, the consumer eventually winds up paying the cost of inoperative capital.

Mr. Chairman, we have reluctantly come to a conclusion to recommend intervention in a free market system. We believe that legislation along the general lines we have discussed, the details of which should emerge from these deliberations, should be tightly drawn, limited in time, and at the earliest possible time, this ailing free enterprise system should be put back on its feet and the legislative "remedies" terminated.

We appreciate the opportunity to comment on this highly complex and controversial situation. We will be pleased to assist in any way we can to find an equitable solution.

Mr. **Resler**. With that I would like to thank the chairman for his activity on this legislation. Thank you.

Senator **Hatfield**. I appreciate your comments, gentlemen. Mr. Stimpson, you indicated and I would agree that within the industry there has been—well, can we expect further movement toward more agreement within the industry? What timeframe are we working in? I mean, the house is on fire and waiting for an agreement, or some consensus on which fire engine to call is a rather difficult situation to be in.

Mr. **Stimpson**. Mr. Chairman, I am afraid that industry has discussed this situation so thoroughly, and we are so diverse in what we think ought to be done that we are going to have to leave it up to you as the fireman to help put this fire out. We hate to pass the buck to Congress, but I did hear one of my cohorts say yesterday he was afraid that is exactly what might have to happen.

We came very, very close to an agreement, but in the last minute this disrupted and so the National Forest Products has had to take a hands-off position and let the different regional associations try to come to some equitable agreement. I don't really think they are too far apart, but I think they are going to need the help of Congress and the administration to accomplish this.

Senator **Hatfield**. Let me make one thing clear and carry this analogy a little further. We decide, you're not going to cut our firehoses, are you, once we lay down the solution?

Mr. **Stimpson**. Only history will tell about that.

Senator **Bumpers**. I'm not going to vote for this if you tell me half of my people are going to be mad at me when I finish.

Mr. **Stimpson**. What about me?

I can see that even though I'm from the South I'm representing a mutual viewpoint. There are people from the South who will be very vocal on what they think ought to go into the bill.

Senator **Hatfield**. Mr. Resler, you point out, picking up on Mr. Stimpson's position, you point out we should be more precise, more definitive, more detailed on the procedure here, and I understand your concern about OMB, but you say the more precise we get then the more narrow the base becomes of support within the industry and of industry parties who may not be a part.

I wonder if we could reach that goal by not trying to spell it out so precisely in the bill, but perhaps in the report that accompanies the bill, that we can get down to some of the more detailed provisions that you focused upon. Do you think that would be possible?

Mr. **Resler**. Yes, I do believe that's possible, Mr. Chairman. If I could build on Billy's analogy, if the industry can't get it's act together and dump it back in Congress lap and then through generalized legislative authority dump it back in the agency's lap, normally I would have no problem with that except that the agency cannot move, either agency cannot move without concurrence of the administration on the process that will be used. So I'm trying to suggest if we, I would suggest that under the circumstances the best one can do is establish a good record of what the intent is, and through questionings as I've suggested, find out before you jump in in an effort to pass this legislation more precisely what the administration will do with it.

It's my feeling that both the BLM and the Forest Service would be very concerned about the present situation and would lean toward favorable actions to resolve this issue. But they are not free agents, as you well know.

Senator HATFIELD. I want you to know that one of the purposes of the hearing is to determine the degree and specificity of what the bill should include. And let me emphasize, this proposal of mine is not locked in concrete. I want to develop out of these hearings improvements, changes, and modifications that would be required.

Mr. Resler, you voiced general support for contract adjustments. Does simply extending the term of contract disrupt the Forest Service, Interior Department timber sales programs, such as blocking future sales?

Mr. RESLER. Yes, it's a very serious effect. It depends on how much it's used. The industry's proposal has suggested on a rather broad scale an allegation of authority to make contract term adjustments. I think there should be some provision in there in looking at the consequences of certainly 5- to 10-year-term adjustment. It can have a serious effect.

Senator HATFIELD. Senator Bumpers?

Senator BUMPERS. Mr. Stimpson, I just have one question that I wanted to ask you. I might say that your affiliate in my State favors this, and I thought we had pretty much agreed on what they would accept. I take it from your testimony that your organization has a diverse opinion among the membership, and I can appreciate that. But in your testimony on page 6 you say:

> By May of 1982, market conditions have deteriorated to the point where many purchasers could not pay contract extension deposits, a requirement of extension. To prevent further hardship the Forest Service granted a waiver of extension deposits but required that interest payments be made or be accrued on unpaid balances owed to the Government.

Are you talking about the extension deposit when you refer to the unpaid balances.

Mr. STIMPSON. Yes, sir.

Senator BUMPERS. So the Government didn't actually waive it and say that you don't have to pay it; it just extended the time.

Mr. STIMPSON. That's correct.

Senator BUMPERS. Now we're talking about the 2-year extension that Secretary Crowell announced in 1981, so persons who took advantage of the extensions granted under that sort of amnesty provision still were required to meet the terms of the contract insofar as the deposit was concerned. If they couldn't do that, they had to pay interest on the deposit for the extension. If they couldn't do that, then the whole thing would accumulate. Am I correct on that?

Mr. STIMPSON. That's correct.

Senator BUMPERS. If we come up with an extension, is it your understanding that the extensions that we grant, say for 5 years or 10 years or whatever amount of time, would not require any additional money for that extension? Is that the position of your association?

Mr. STIMPSON. These bills do not cover that and we don't have a position in the association.

Senator **Bumpers**. Mr. Resler, do you?

Mr. **Resler**. I would agree there is no provision in the bill, S. 2805, for instance, but that would be one of the components that would have to be worked out in formulation of regulations.

Senator **Bumpers**. It seems to me that we're probably compounding the problems if we don't also waive the sums that would otherwise be required for extensions.

Mr. **Resler**. I think one would need to develop the regulations in implementing this kind of a bill.

Senator **Hatfield**. Thank you.

We're going to take a recess of 5 minutes here.

[Whereupon, a short recess was taken.]

Senator **Hatfield**. I'd like to invite the next panel to the table. Paul Ehinger, "Red" Emmerson, Gary Jones, and Gerhard Bendix.

As we have admonished the other witnesses, I would appreciate your handling your testimony in a summary fashion.

STATEMENT OF PAUL F. EHINGER, EXECUTIVE VICE PRESIDENT, WESTERN RESOURCE ALLIANCE, EUGENE, OREG.

Mr. **Ehinger**. I'm Paul Ehinger. I'm executive vice president of Western Resource Alliance from Eugene, Oreg. Our association represents groups that are primarily interested in public timber and have a major source of there own material for their mills coming from Federal timber.

I'm here to outline two or three things and basically address the magnitude of the problem as it is in the West as it relates to the market, to the market in relation to the bid prices previously and the magnitude of the loss that will be suffered by the various operators.

We've been operating, we've been talking about injury of people. We have injured and hurt this industry for 2½ years and we are now in a position where we're struggling for survival, particularly that segment that is involved in the public timber as their main source of supply. Studies have said there is no assurance that anyone will go bankrupt and anyone will go out of business. I am here to identify the facts and figures on such that are available in terms of what the losses will be that are sustained by harvesting present volumes on the contract and the conclusions you would draw from them are somewhat obvious.

The market today will neither accept in volume nor price the kinds of logs that are available from public timberlands which are now under contract. We had a 16-percent drop in the market the first 5 months, from the first 5 months of last year in the Western market. We thought it was bad last year. We didn't know how well off we were last fall compared to this year.

First, I'd just call your attention to the first two tables in the Appendix of my remarks which show the relationship of the market for the past 5 years. You will see that each year has been a declining year. You have to bear in mind that the timber we are troubled with now as bid in the years of 1978 and 1979, the top years on the top of that graph, and they were bid with expectations of higher and higher markets. Instead, as you see, we've had lower and lower markets.

Also, people are of the opinion that we have been in the deepest part of our trouble in the last year. I'm here to tell you that we have been getting deeper and deeper into trouble and that chart 3 which is there shows the decline of markets this spring, and the continuing decline. I call your attention to the fact that pulp and paper markets are getting much much worse. As a result, many of the operators today are having their shipments of chips to the pulp mills curtailed substantially, both making operations difficult or impossible, and making the profitability drop another $5 to $10. In other words, we see no hope for the future and the hope that we've always been told to look for keeps getting shoved out beyond.

The fourth chart there shows the radical difference between product prices and stumpage which was the basis for the problem we have today. It shows that we have bid what are considered foolish prices and have described earlier as bizarre business. But I submit to you that if we had received the market prices that the economists predicted we would be receiving today, these prices which were bid would have been realistic and not bizarre.

I would also point out, in terms of today's market, appraised prices in 1978 and 1979 and the early parts of 1980 would be considered bizarre prices because they are substantially out of the marketplace today.

The final portion that I want to address is the last table, and it was done with a major effort to calculate with a volume under contract on three major national forests constituting 5½ billion board feet which average delivered cost if $475 in log form. We took it operator by operator and sale by sale, taking the Forest Service appraisal price and our log distribution, and applied it to today's market in western Oregon to those prices, and calculated the loss to the individual operator. On the average, the marketplace will buy today the logs under contract at $218 per 1,000 board feet. If the average operator delivers those logs at $218 per 1,000 out of his average, he will suffer a loss of $257 a thousand. In other words, the loss today is greater than his net realization. And you will see that operators, whether they be small loggers, independent loggers, or the larger operators, have lost up into the millions of dollars, as high as $80 million in one case on the chart. And in the words of one banker, the deficits will be at least one to two times on an annualized basis the asset value of that operation.

I submit to you unless something is done with things of this magnitude, that a major portion of this industry is doomed to extinction in the western parts of Oregon and Washington and the northern parts of California.

That summarizes my statement, thank you.

Senator **Hatfield**. Thank you.

[The prepared statement of Mr. Ehinger follows:]

WESTERN RESOURCE ALLIANCE

P.O. Box 7848
Eugene, Oregon 97401
503-726-1766

TESTIMONY OF
PAUL F. EHINGER
EXECUTIVE VICE-PRESIDENT
WESTERN RESOURCE ALLIANCE
EUGENE, OREGON

Before the
Senate Committee on Energy and Natural Resources,
Subcommittee on Public Lands and Reserved Water

August 16-17, 1982

My name is Paul F. Ehinger. I am executive vice president of Western Resource Alliance, headquartered in Eugene, Oregon. WRA is an association of western timber companies which share a common interest in federal timber policy because they are heavily dependent on federal timber as their source of raw material supply for lumber and plywood manufacture.

There are several key points about the current timber economic situation that are not easily understood. The current problem of the industry dependent on public timber in the West has been generally characterized as one merely of "hurt" or "injury." Most people not directly involved have failed to fully comprehend the magnitude of the problem.

The problem can only properly be described as survival-- the industry has been "hurt" and "injured" for the past two and a half years. We are here before Congress to stop the bleeding before the death of that portion of the industry primarily dependent on public timber.

The first two tables included with my testimony (Tables 1 and 2), clearly show that the lumber and plywood markets today are below the price levels of any markets experienced in the last five years, the period during which operators committed themselves to their current timber supply. The lines show a continued downward trend. The housing market shows no promise of an early return. All other projections keep pushing recovery deeper into the distant future.

Last September we first recognized that some major changes would have to take place if the public timber sector was to continue as a viable segment of the forest products industry. At that time we thought we were at the bottom of the market and that recovery of a modest nature would begin in 1982. How wrong we were is indicated on Table 3, which shows the actual prices paid for three main commodity items: one-half inch CDX plywood, one-tenth inch CD veneer, and standard and better Douglas fir 2-by-4's. These figures show that today's prices are more than 15%, 30% and 24% respectively below the prices of a year ago.

In terms of significance to the timber purchaser, the most dramatic change came this spring when CD veneer dropped $6 per thousand in just two months from the middle of March to the middle of May. This figure, converted back to standing timber prices, reduced the operator's margin by from $75 to $90 per thousand board feet log scale, depending on mill efficiency.

Table 4 graphically demonstrates the difference between the present product market and the stumpage prices now being bid in anticipation of a lack of economic recovery. This lack of recovery stands in stark contrast to the predictions by all leading economists through the early months of 1981. One of the leading economic forecasting firms relied on by the industry predicted during the first quarter of 1981 that by today, we would be selling Douglas fir 2x4's for $390 per thousand board feet. Today's price is actually $160, far less than half the prediction. People talk about the depressed auto industry, but you don't find cars selling for half price.

Translated back to the cost of timber, today's prices mean an operator's break-even point has changed by a minimum of $350 to more than $400 per thousand. The prices bid until recently for timber have been termed "foolish" and "speculative". Yet based on respected economic forecasts, most of them were well within the range of profitability that had been projected.

The final problem, addressed in Table 5, is the magnitude of the financial losses which will be experienced by operators. One of the leading bank economists who analyzed the statistics several months ago said that the price of timber under contract by a typical mill dependent on public timber was approximately three times the asset value of the mill.

Table 5 was developed by applying the current average market log prices in western Oregon to the Forest Service appraisal log grades so as to arrive at current values for the timber in each particular sale on three National Forests of western Oregon: the Siuslaw, Willamette and Umpqua. These individual sale values then were aggregated for each contractor's entire volume under contract.

The 25 operators shown (without names) were selected as representative of a list that included the contract holders of more than 5.5 million board feet of the 7.8 million board feet under Forest Service contract in western Oregon as of March 31, 1982.

The aggregate loss if harvest of this timber under contract in these three forests alone were required at today's prices would be $1.35 billion (B-billion). The potential losses for some of these operators just on these three forests include amounts such as $11.8 million, $28.9 million, $21.4 million, $42.2 million, $4.5 million, $12.9 million and $80.4 million. Some are even higher. If the remaining National Forests of western Oregon and the BLM forests were included, the aggregate figure would almost certainly soar past $2 billion. Losses in other parts of Oregon and other states would send the total even higher.

If harvest or default is forced onto these western Oregon operators, total and complete bankruptcy is assured for the majority of them. If that is permitted to occur, the effects will spread with devastating effect through the dozens of small communities where these mills are located.

From the government's position, there will be little possibility of collecting even 10¢ on the dollar from the damages process. The other losses in terms of harm to communities, unemployment for workers, and loss of timber revenues to the local and federal governments will be staggering.

In the present and future economic climate, and given the magnitude of the problem, it is powerfully obvious that aggressive action on a solution by Congress is needed quickly.

TABLE 1

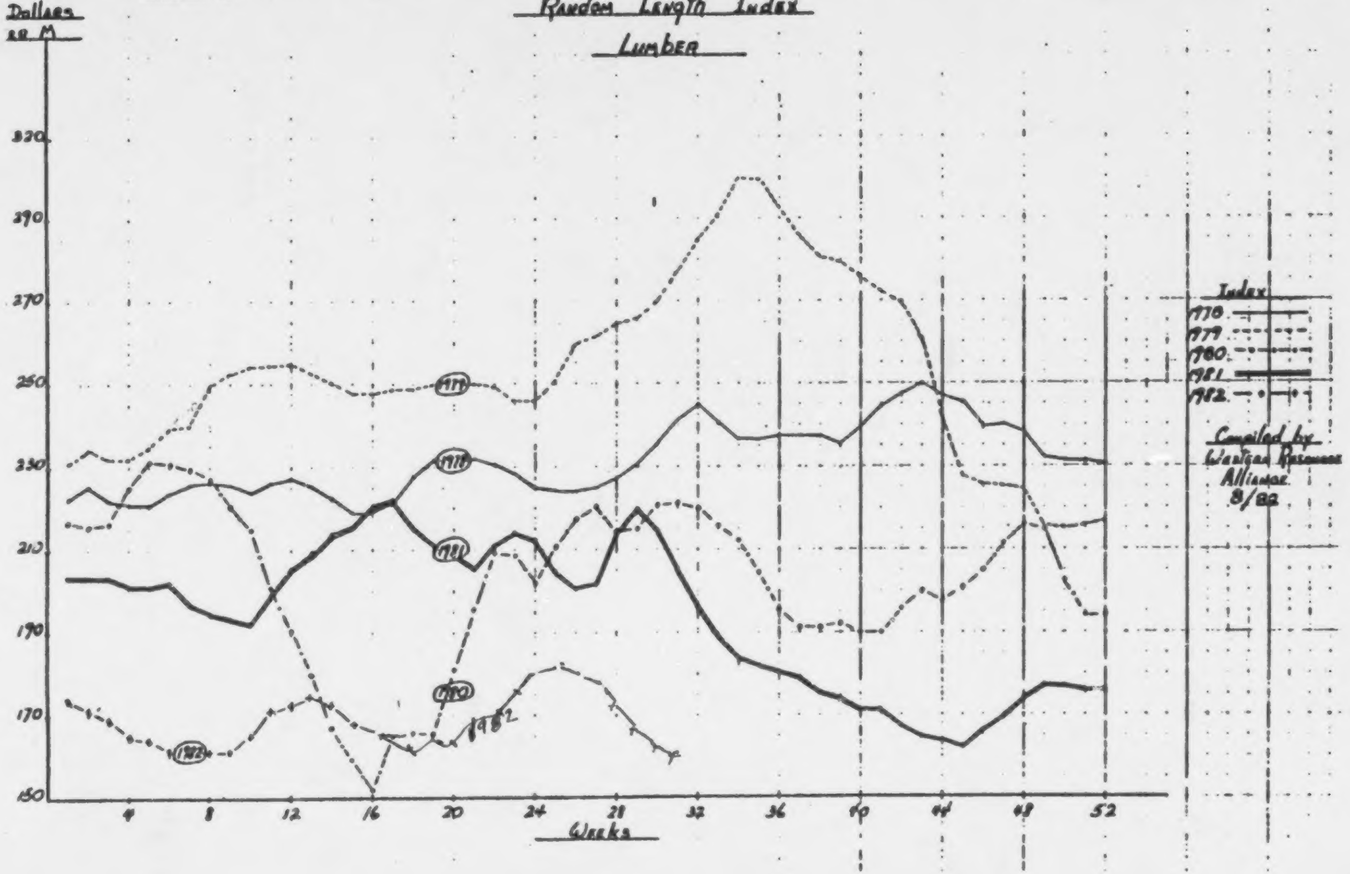

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TABLE 2

Random Length Index

Plywood

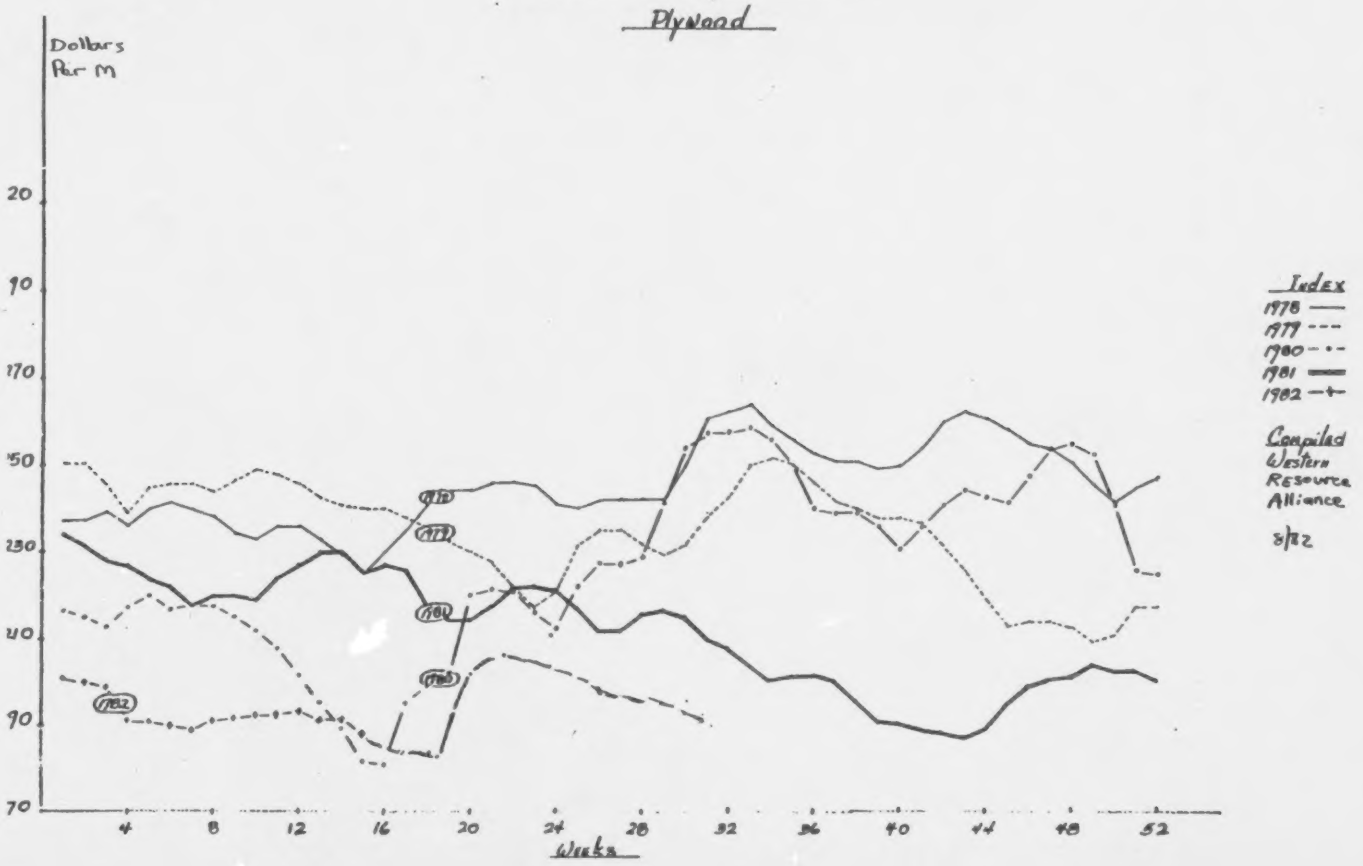

TABLE 3

PRICES NET F.O.B. MILL

(Figures in Dollars per Thousand Board Feet)

Date	Plywood 1/2" CDX 4/5 Ply	Veneer 1/10" CD	Lumber 2x4 Std. & Btr. Random Green (Portland)
1981			
Aug. 14	$196	$25.50	$185
Sept. 11	189	24.75	172
Oct. 16	178	24.50	165
Nov. 13	189	23.75	154
Dec. 18	189	25.25	163
1982			
Jan. 15	181	25.00	158
Feb. 12	178	24.25	143
Mar. 5	177	24.50	150
Mar. 12	177	24.00	160
Mar. 19	175	23.25	165
Mar. 26	175	21.75	165
Apr. 2	171	20.50	168
Apr. 9	168	20.00	165
Apr. 16	162	19.75	158
Apr. 23	163	19.25	155
Apr. 30	162	18.50	155
May 7	159	18.00	152
May 14	162	18.00	155
May 21	173	18.75	153
May 28	176	20.00	151
June 4	175	20.50	151
June 11	170	20.50	151
June 18	168	20.00	153
June 25	165	19.25	153
July 2	164	18.25	151
July 9	163	17.75	150
July 16	166	17.00	148
July 23	168	16.75	143
July 30	166	17.25	140
Aug. 6	165	17.75	140

Source Data: Randon Lengths
Compiled By: Western Resource Alliance
8/13/82

TABLE 4

DOUGLAS FIR LUMBER AND STUMPAGE PRICES

(Dollars Per Thousand Board Feet)

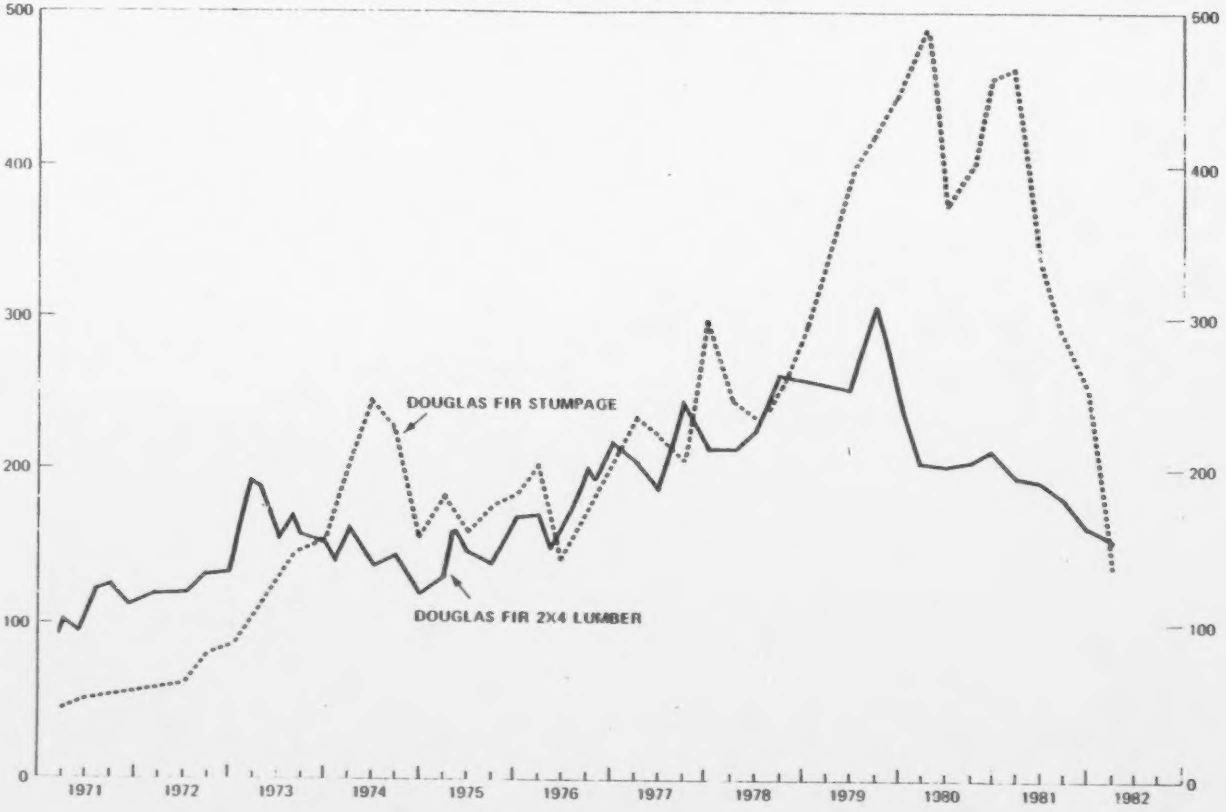

TABLE 5

Total volume of U.S. Forest Service timber under contract by 25 selected operators on Siuslaw, Willamette and Umpqua National Forests of western Oregon, showing total dollar loss on today's market based on current (August 1982) log values, and volumes under contract at 3/31/82.

CON-TRACTOR	NUMBER OF SALES	MONTHS LEFT ON SALE	VOLUME REMAINING MBF	AVG. BID PRICE PER MBF	LOSS TO MARKET PER MBF	TOTAL DOLLAR LOSS
A	5	22	56.0	$287	$210	$11,848,000
B*	6	6	3.3	222	185	615,000
C	8	22	32.6	279	245	7,999,000
D	21	29	98.2	381	295	28,955,000
E	14	22	45.5	224	159	7,243,000
F	18	28	92.5	352	294	27,212,000
G	13	23	70.6	403	303	21,393,000
H*	2	11	1.4	242	258	368,000
I	34	27	187.8	320	225	42,250,000
J	7	25	41.2	441	318	13,098,000
K*	6	5	1.2	244	138	167,000
L	22	24	136.2	278	201	27,312,000
M	34	24	176.2	298	221	38,929,000
N	21	23	150.0	341	230	34,494,000
O	4	20	13.9	472	359	4,994,000
P	38	32	299.3	322	269	80,438,000
Q*	1	9	.4	240	252	98,000
R	18	24	132.0	304	230	30,370,000
S	19	24	143.0	368	272	38,917,000
T	12	20	49.6	350	261	12,946,000
U*	1	9	1.0	199	109	109,000
V*	10	46	49.7	380	314	15,603,000
W	48	27	281.2	352	283	79,400,000
X	10	32	62.5	429	333	20,811,000
Y	2	21	12.3	409	311	3,828,000

*Loggers and operators without a mill.

8/13/82

STATEMENT OF A. A. "RED" EMMERSON, PRESIDENT, SIERRA PACIFIC INDUSTRIES, ARCATA, CALIF.

Mr. **Emmerson**. I'm A. A. "Red" Emmerson, president of Sierra Pacific, Arcata, Calif.

We have eight mills in northern California and eight saw mills and two miller plants in California. They are basically dependent on Forest Service timber.

Commonly, in some of the areas that we operate in, we are the largest importers in the local area. Unfortunately, two of our plants are not running at this time because of the severely reduced demand. During normal conditions we employ approximately 1,500 people and process about 450 million board feet of timber per year. We have, however, been using more of our milling capacity than most western lumber companies. We've been trying to meet our obligations to harvest timber under Forest Service contracts.

Although we feel we are more efficient than the average, we cannot hope to run at full capacity and pay stumpage rates established when there were general expectations of a continued high demand for lumber. Something has to give.

There is not sufficient demand to permit timely completion of many timber sale contracts. In some cases, stumpage rates alone exceed the price to be received for the lumber. There is nothing left to meet logging and milling costs under some of these contracts.

When lumber markets began to deteriorate in 1979, we anticipated the usual short cycle and a renewal of markets within 6 to 12 months. That did not occur. In a March 23, 1982, report, "Forest Service Timber Sale Contract Situation," the Forest Service said:

> The economic climate has changed significantly and so has the timber producers' situation. Many have high priced national forest timber sales under contract. The prices were bid competitively during economic times that were entirely different from the current climate. These national forest timber purchasers are caught in a squeeze from which there seems no relief. Costs keep increasing and markets have evaporated* * *
>
> The details of the situation facing the individual timber producers are largely unknown * * * there are apparently national forest timber sales so high * * * they could not profitably be harvested, even under the best markets ever experienced.

Because of the unknowns in this severe situation, George A. Craig, a registered professional forester, was asked to review existing timber sales in California.

The review included 362 contracts which covered 3.7 billion board feet, 60 percent of the uncut Forest Service timber under contract in California. About 40 mills and 20 different purchasers were involved in the study. Forest Service officials have agreed that the study procedures and results are valid. Those results are significant. The analysis used Forest Service timber appraisal data collected from timber purchasers records.

Not one of the 366 contracts reviewed had an opportunity for the operator of average efficiency to break even in the first quarter of 1982. The best contract had only 2,867 MBF remaining and a deficit of $1.36/MBF. For all of the contracts, average operating costs per thousand board feet were $295 and stumpage charges were $222 for a total cost of $517/MBF. The expected product price was only $281/MBF; a loss of $236/MBF.

The study also indicated that sales bid in 1976 and 1977 are beyond reach for any hoped-for market recovery for the operator of average efficiency.

The drop in market value was also demonstrated by the fact that while the average stumpage price for existing timber sales sampled was $222/MBF, a sample of sales sold in California during the first quarter of 1982 indicated the average stumpage price had dropped to near $67/MBF.

I have attempted to relate some of the facts that indicate that the need for timber sale contract relief is real and that it is severe.

I have also received here a copy of a letter to Senator Alan Cranston from a company in northern California which indicates that they stand to lose $72 million if they are forced to meet the Federal timber sale contracts. Much of the detail is included in the support of their claims. Since this has been offered as public information I would like to enter the data as part of the record on my behalf. It looks very, very detailed there. There must be a lot of backing up for showing what they say.

You know in normal business, many business deals that I've been involved with personally in the last 30 years, when we ran into situations where markets changed rapidly and we have situations where people can't live with it, I think it's a prudent thing to keep the contractor or the person doing business alive and not just let them go bankrupt which would happen in the timber industry here if this was to go on.

I use a couple of examples here. One is the early 1970's, many of the companies here on the west coast entered into contracts with the Japanese for chips and then we had double digit inflation and everything like that, and every one of those contracts was just renegotiated and we were personally involved in several of them. Anyway, it worked out where the Japanese had the chips and the west coast companies still produced the chips. And also our company has had a couple of deals this year on private timber where we have the price altered in the terms of the contract because we were going to default on them so we could live with it.

Also, the State of California has recently, just in the last few weeks, rolled back the price of State timber, the price that they have charged for State timber. There are some different scales on the thing, but basically it's a 50 percent, they dropped the contract price of the timber by 50 percent. So anyway, that's for the State of California. There are some other factors in that also, but I would also like to state I personally have a strong feeling about our company continuing. It's a privately held company and most of our plants are in different areas of northern California. One of my sons is running one of our plants and my other son plans on becoming a certified public accountant and eventually joining our company. My father started this company right after World War II, and my father is pretty much retired right now.

Anyway, we hope to be around when things get better and be able to take advantage of this thing and we hope we can live, if we're forced to hold our feet to the fire in this thing, we're not going to be here. We're going to be another one of these companies that go bankrupt.

Thank you.

Senator HATFIELD. Thank you.

[The prepared statement and letter submitted by Mr. Emmerson follow:]

Statement to the Subcommittee on Public Lands and Reserved Water of the Senate Committee on Energy and Natural Resources on S.2805, Washington, D. C.
August 16, 1982.

Mr. Chairman and Members of the Committee:

I am A. A. Emmerson, President of Sierra Pacific Industries, Arcata, California. We have eight modern sawmills and two millwork plants in California, and they all have been dependent on national forest timber. They commonly are the biggest employer in local community. Unfortunately two of them are not running at this time, because of the severely reduced demand for their products. Under normal conditions, we have 1,500 employees and process 450 million board feet of timber per year.

We have, however, been using more of our milling capacity than most western lumber companies. We have been trying to meet our obligations to harvest timber under Forest Service contracts.

Although we feel we are more efficient than the average, we cannot hope to run at full capacity and pay stumpage rates established when there were general expectations of a continued high demand for lumber. Something has to give.

There is not sufficient demand to permit timely completion of many timber sale contracts. In some cases, stumpage rates alone exceed the price to be received for the lumber. There is nothing left to meet logging and milling costs under some of these contracts.

The high stumpage rates resulted from competition for artificially short supplies of timber at a time of high demand. The government has not offered for sale all the timber that would be appropriately sold according to management plans. Shortages have resulted from wilderness controversies and the taking of private forests for the Redwood National Park.

Harvesting of some of the high-priced timber was delayed in California, because of the emergency salvage of nearly 2 billion board feet of timber killed by drought or fires. For the uncompleted contracts, costs continued to rise as lumber prices dropped.

When lumber markets began to deteriorate in 1979, we anticipated the usual short-cycle and a renewal of markets within 6-12 months. That did not occur. In a March 23, 1982 report, Forest Service Timber Sale Contract Situation, the Forest Service said:

> "The economic climate has changed significantly and so has the timber producers' situation. Many have high priced National Forest timber sales under contract. The prices were bid competitively during economic times that were entirely different from the current climate. These National Forest timber purchasers are caught in a squeeze from which there seems no relief. Costs keep increasing and markets have evaporated...

"The details of the situation facing the individual timber producers are largely unknown...there are apparently National Forest timber sales so high...they could not profitably be harvested, even under the best markets ever experienced."

Because of the unknowns in this severe situation, George A. Craig, a Registered Professional Forester, was asked to review existing timber sales in California. The results showed that the timber industry was in the worst economic situation since before World War II and that our difficulty was greater than the Forest Service or many timber operators had realized. A copy of this two-part study is being submitted with my written statement, and I respectfully request that they be entered into the record. I would like to highlight the results of that in-depth study for you.

The review included 366 contracts which covered 3.7 billion board feet, 60% of the uncut Forest Service timber under contract in California. About 40 mills and 20 different purchasers were involved in the study. Forest Service officials have agreed that the study procedures and results are valid. Those results are significant. The analysis used Forest Service timber appraisal data collected from timber purchasers' records.

Not one of the 366 contracts reviewed had an opportunity for the operator of average efficiency to break-even in the first quarter of 1982. The "best" contract had only 2,867 MBF remaining and a deficit of $1.36/MBF. For all of the contracts, average operating costs per thousand board feet were $295 and stumpage charges were $222 for a total cost of $517/MBF. The expected product price was only $281/MBF; a loss of $236/MBF.

The study also indicated that sales bid in 1976 and 1977 "...are beyond reach for any hoped-for market recovery for the operator of average efficiency."

The drop in market value was also demonstrated by the fact that while the average stumpage price for existing timber sales sampled was $222/MBF, a sample of sales sold in California during the first quarter of 1982 indicated the average stumpage price had dropped to near $67/MBF.

I have attempted to relate some of the facts that indicate that the need for timber sale contract relief is real and that it is severe. More details can be obtained on the California situation through review of the Craig study.

The desperate situation can best be minimized by continuing a reasonable federal timber sale program, permitting the termination of some or all of the existing timber sale contracts, providing for contract term adjustments for the sales bid prior to January 1, 1982 and implementing changes in accounting for Purchaser Credit. There are hundreds of thousands of dollars tied up in unusable Purchaser Credit for which the government has received value, but for which timber purchasers will not be compensated unless there is corrective legislation.

Without such action, there can be only more problems for both the government and the industry--with more business failures, more unemployment and reduced income to the local and Federal governments.

We have a strong personal interest in the welfare of several timber communities in California. Ours is a family-owned business, started by my father at the end of World War II. One of my sons manages one of the millwork plants. All of our managers live in and are part of the local communities, where the mills are situated. My other son is studying to become a CPA and plans to work with the firm. We hope to continue to be important contributors to the communities in which we live.

In order to achieve that goal, there must be a continuing supply of national forest timber offered under reasonable terms. Even if the proposed relief is provided to current contract holders, we only can work our way out of the remaining difficulties by having more timber available at current fair market value.

This concludes my statement. I appreciate your attention and will be pleased to respond to questions.

# # #

Big Flat Timber Company
1607 Fifth Street
Crescent City, California 95531

August 10, 1982

RECEIVED
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Western Timber Association

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The Honorable Senator Allan Cranston
299 Senate Office Building
Washington, D.C. 20510

Dear Senator Cranston:

The West Coast Logging and Sawmill industry is suffering the most severe economic beating in memory. Bill Peepe and myself have pledged every asset we have accumulated over the past thirty six years with the hope that our business and its employees would survive.

We were forced to close our Crescent City mill which was the largest employer in town primarily because of todays lumber market which would not support the price we would be required to pay the U.S. Forest Service for our timber contracts.

The high cost of U.S. Forest Service timber sales held by the industry has contributed to the housing depression on the west coast. It has opened the west coast market to the subsidized Canadian timber. It is the primary cause of the extraordinary unemployment in our area.

If Bill and I were to honor our timber contracts at todays lumber prices our losses would exceed $72,000,000.00. That would be seventy two million dollars we do not have, as we have sustained horrible losses over the past three years due to the declining lumber market, our attempt to maintain our employees until the market recovered, and because we did honor our log commitments beyond our capacity to do so.

The blame for the current depressed condition of the West Coast Logging and Sawmill Industry belongs to everyone. Bill and I acknowledge our share and we are paying dearly for it. However, it would hardly be fair if the people of Humboldt and Del Norte Counties and other like communities in the west should bear the whole cost for the blame of the others. The inflation of the past ten years caused inflation pricing to be a prime factor in the valuation of timber for current and future harvest. Double digit inflation caused the west coast industry to factor 15% per year inflation factors into their 1981 bids to the U.S. Forest Service. The demand for government services by the people and congressional willingness to accede to those demands contributed to that condition.

Congressional removal of harvestable timber from the market with the creation of new park lands, RARE II and primative areas compounded the problem.

Large and small business believed that their investment in plant and equipment would soon be worthless if they did not have timber to harvest and process. No one dreamed that this prudent protection of jobs and assets with timber would create a more onerous risk of bankruptcy.

U.S. Forest Service auction bidding procedures exacerbated the problem. The Forest Service found greater potential revenues would be realized with competitive verbal auctions instead of sealed bids.

Finally, the Government's demand for funds to finance government programs drove interest rates to historical heights. Small business operating with borrowed money had soaring interest rates destroy profitability. Many in the logging and sawmill industry have been driven to the wall, including McNamara & Peepe Corporation (Big Flat Timber Co.).

Concurrently high interest rates contributed to the destruction of the lumber industries primary market, the housing and construction industries. Few, if any, experts see a rebound of that market in the near term.

It is essential that our partnership, Big Flat Timber Company, McNamara & Peepe Corporation, and the logging and sawmill industry have competitively priced raw material (timber) if they are to regain markets lost to foreign competition and/or if they are to contribute to the resurrection of the housing industry.

Lastly, if legislative relief is not forthcoming to relieve the burden of the high priced timber purchase obligations to the U.S. Forest Service, we shall be forced to seek the legal relief of bankruptcy proceedings.

I hope it is not the desire of Congress to eliminate small business competition or to cause the people of Del Norte and Humboldt Counties to carry the burden for the blame of others. Can you assure them and us that you will use every resource available to you to obtain for the west coast forest products industry equitable relief from the oppressive burden of the U.S. Forest Service timber sales contract? Please advise me as to what else I might do that will help you and us resolve this pressing problem. Time is of the essence.

Sincerely yours,

BIG FLAT TIMBER COMPANY

Thomas F. McNamara

TFM:m

P.S. The enclosed schedule calculates the financial impact of the Big Flat Timber Company/U.S. Forest Service timber sales contracts were they to be executed in todays market. Unfortunately no one sees an appreciable improvement in the market for the forseeable future.

CAMP 7 (short log)

SALES						
	Sugar Pine	1400 MBF	@ $175	$245,000		
	Douglas Fir	1200 MBF	@ $150	180,000		
	POC	200 MBF	@ $600	60,000		
	Cull	500 MBF	@ $ 50	30,000		
				Total	$515,000	
				Current Market Value		$ 160.94/MBF
COSTS	(Fixed)					
	Douglas Fir	1200 MBF	@ $ 50.41	$ 60,492		
	POC	100 MBF	@ $259.03	25,903		
	Cull	500 MBF	@ $ 5.00	2,500		
	Slash	2700 MBF	@ $ 16.80	45,360		
				$134,255		
	(Variable)					
	Logging	3840	@ $ 60.00	$230,400		
	Trucking	3840	@ $ 28.00	107,520		
	Taxes & Scale	3200	@ $ 12.00	38,400		
	Sugar Pine	1400	@ $ 53.38	73,332		
				$449,652		
				Total Cost	$583,907	
				Current Market Cost		$ 182.41/MBF
				Difference in Value		($ -21.53/MBF)
		Actual Contract Cost on 7/20/82			$727,449	$ 227.33
				DIFFERENCE IN VALUE		($ -66.39/MBF)
						($212,449)

DIXIE KNOT (Long Log)

SALES					
DF	4750 MBF	@	$276	$1,311,000	
WRC	220 MBF	@	$225	49,500	
POC	30 MBF	@	1000	30,000	
WH	590 MBF	@	$150	88.500	
XP	200 MBF	@	$ 80	16,000	
SC	240 MBF	@	$100	24,000	
				Total	$1,519,000

Current Market Value $251.91/MBF

COST (Fixed)					
WRC	220 MBF	@	$ 117.79	$25,914	
POC	30 MBF	@	$1,191.37	35,741	
WH	590 MBF	@	$ 26.77	15,794	
DF	4750 MBF	@	$ 134.32	638,020	
Cull	134	@	$ 85.54	11,462	
				$726,931	
(Variable)					
Logging	7236 MBF	@	$ 80.00	578,880	
Trucking	7236 MBF	@	$ 40.00	289,440	
Taxes & Scale	6030 MBF	@	$ 6.00	36,180	
				$904,500	
				Total Cost	$1,631,431

Current Market Cost $270.55/MBF

Difference in Value (-$ 18.64/MBF)

Actual Contract Cost on 7/20/82 $3,344,661 554.67

DIFFERENCE IN VALUE (-$302.76/MBF)

DF Value	2P	.07 x 460	=	$ 32.20
(Long Log)	3P	.33 x 370	=	$ 122.10
	SM	.07 x 255	=	$ 17.85
	2M	.47 x 200	=	$ 94.00
	3M	.06 x 165	=	$ 9.90
				$ 276.05

($1,825,661)

DOUGH (Long Log)

SALES

DF	4650 MBF	@ $235	$1,091,750
Sugar Pine	210 MBF	@ $225	47,250
POC	90 MBF	@ 1000	90,000
WF	50 MBF	@ $150	7,500
Cull	360 MBF	@ $ 80	28,800

Total $1,266,300

Current Market Value $ 253.26/MBF

COST (Fixed)

SP	210 MBF	@ $301.38	$ 63,290
POC	90 MBF	@ $343.44	30,910
WF	50 MBF	@ $ 65.23	3,262
Slash	5000 MBF	@ $ 3.60	18,000
Per acre price.	103 ac.	@ $ 53.83	5,544
Rd.Maint.	5000	@ $ 6.83	34,150
			155,156
(Variable)			
Logging	6000 MBF	@ $ 75.00	450,000
Trucking	6000 MBF	@ $ 40.00	240,000
Taxes & Scale	5000 MBF	@ $ 9.00	45,000
			735,000

Total Cost $ 894,806

Current Market Cost $ 178.96

Difference in Value $ 74.30

Actual Contract Cost on 7/20/82 $3,085,979 $ 617.20/MBF

DIFFERENCE IN VALUE (-$ 363.94/MBF)

DF Value	2P	.01 x 460 =	$ 4.60
(long Log)	3P	.21 x 370 =	$ 77.70
	SM	.01 x 255 =	$ 2.55
	2M	.67 x 200 =	$ 134.00
	3M	.10 x 165 =	$ 16.50
			$ 235.35/MBF

($1,819,679)

ELK HAZEL (Long Log)

SALES			
DF	5260 MBF @ $ 233	$1,225,580	
SP	320 MBF @ $ 200	64,000	
SC	440 MBF @ $ 100	44,000	
XP	220 MBF @ $ 180	17,600	
		Total	$1,351,180
		Current Market Value	$ 242.15/MBF
COST (Fixed)			
DF	5260 MBF @ $136.19	$ 716,885	
SP	320 MBF @ $201.13	64,367	
Slash	5580 MBF @ $ 7.03	39,227	
Cull	156 acres @ $134.92	21,048	
Rd. Maint.	5580 MBF @ $ 1.67	9,319	
		$ 850,841	
(Variable)			
Logging	6696 MBF @ $ 65.00	435,240	
Trucking	6696 MBF @ $ 30.00	200,880	
Taxes & Scale	5580 MBF @ $ 9.00	50,220	
		$ 686,340	
		Total Cost	$1,537,181
		Current Market Cost	$ 275.48/MBF
		Difference In Value	($- 33.33/MBF)

Actual Contract Cost on 7/20/82 $4,581,195 or $ 821.00/MBF

DIFFERENCE IN VALUE (-$578.85/MBF)

DF Value	2P	.01 x 460 = $ 4.60
(long log)	3P	.19 x 370 = $ 70.30
	SM	.01 x 255 = $ 2.55
	2M	.71 x 200 = $142.00
	3M	.08 x 165 = $ 13.20
		$232.65

(3,230,015)

FOUR PEPPER (Long Log)

SALES					
DF	3180 MBF	@ $ 273	$ 868,140		
POC	1740 MBF	@ $ 900	1,566,000		
WF	540 MBF	@ $ 140	75,600		
SP	85 MBF	@ $ 225	19,125		
SC	20 MBF	@ $ 100	2,000		
			Total	$2,530,865	
			Current Market Value		$ 463.53/MBF
COST (Fixed)					
DF	3180 MBF	@ $159.96	$ 508,672		
POC	1740 MBF	@ $279.80	486,852		
WF	540 MBF	@ $ 30.26	16,340		
SP	85 MBF	@ $159.96	13,596		
Cull	195 ac.	@ $ 4.42	861		
Slash	195 ac.	@ $ 7.25	1,413		
Rd. Maint.	5460	@ $ .97	5,296		
			$ 1,033,034		
(Variable)					
Logging	6006 MBF	@ $ 90.00	$ 540,540		
Trucking	6006 MBF	@ $ 34.00	204,204		
Taxes & Scale	5460 MBF	@ $ 9.00	49,140		
			$ 793,884		
			Total Cost	$1,826,918	
			Current Market Cost		$ 334.60/MBF
			Difference in Value		$ 128.93/MBF
	Actual Contract Cost on 7/20/82			$6,183,836	or $1,132.57 MBF
			DIFFERENCE IN VALUE		(-$669.04/MBF)

DF Value
2P .02 x 460 = $ 9.20
3P .40 x 370 = $148.00
SM .03 x 255 = $ 7.65
2S .49 x 200 = $ 98.00
3S .06 x 165 = $ 9.90
$272.75

($3,652,971)

HUNGRY HALL (Long Log)

SALES						
	DF	12,500 MBF	@ $ 282	$3,525,000		
	POC	800 MBF	@ $1,200	960,000		
	WRC	500 MBF	@ $ 225	112,500		
	WH	1,000 MBF	@ $ 150	150,000		
	Cull	1,600 MBF	@ $ 100	160,000		
				Total	$4,907,500	
				Current Market Value		$ 331.59/MBF
COST	(Fixed)					
	DF	12,500 MBF	@ $ 179.71	$2,246,375		
	POC	800 MBF	@ $1,005.69	804,552		
	WRC	500 MBF	@ $ 213.73	106,580		
	WH	1,000 MBF	@ $ 45.42	45,420		
	Cull	263 acres	@ $ 266.40	70,063		
	Slash	14,800 MBF	@ $ 7.75	114,700		
	Rd. Maint.	14,800 MBF	@ $ 3.76	55,648		
				$3,443,338		
	(Variable)					
	Rock	4,270 cy	@ $ 4.00	$ 17,080		
	Logging	17,760 MBF	@ $ 70.00	1,243,200		
	Trucking	17,760 MBF	@ $ 40.00	710,400		
	Taxes & Scale	14,800 MBF	@ $ 9.00	133,200		
				$2,103,880		
				Total Cost	$5,547,218	
				Current Market Cost		$ 374.82/MBF
				Difference in Value		($ -43.22/MBF)
			Actual Contract Cost on 7/20/82		$15,800,843 or	$1,067.62/MBF
				DIFFERENCE IN VALUE		($ -736.03/MBF)

DF Value 1P
(long log) 2P .10 x 460 = $ 46.00
3P .34 x 370 = $125.80
SM .01 x 255 = $ 2.55
2S .48 x 200 = $ 96.00
3S .07 x 165 = $ 11.55
$282.00

($10,893,343)

IRON SUCKER (Long Log)

SALES			
POC	2700 MBF @ $ 1,000	$ 2,700,000	
DF	1830 MBF @ $ 270	494,100	
WP	50 MBF @ $ 225	11,250	
WH	100 MBF @ $ 150	15,000	
Cull	130 MBF @ $ 100	13,000	
		Total	$3,233,350
		Current Market Value	$ 690.89/MBF

COST (Fixed)		
POC	2700 MBF @ $ 542.33	$ 1,464,291
DF	1830 MBF @ $ 91.97	168,305
WP	50 MBF @ $ 135.69	6,785
WH	100 MBF @ $ 39.99	3,999
Cull	131 acres @ $ 28.71	3,761
Slash	4680 MBF @ $ 7.49	35,053
Rd. Maint.	4680 MBF @ $ 6.93	32,432
		$ 1,714,626
(Variable)		
Rock	1947 cy @ $ 4.00	7,788
Logging	5616 MBF @ $ 75.00	421,200
Trucking	5616 MBF @ $ 40.00	224,640
Taxes & Scale	4680 MBD @ $ 9.00	42,120
		$ 695,748

Total Cost $2,410,374

Current Market Cost $ 515.04/MBF

Difference in Value $ 175.85/MBF

Actual Contract Cost on 7/20/82 $9,383,583 or $2,005.04/MBF

DIFFERENCE IN COST (-$1,314.15/MBF)

DF Value 2P .07 x 460 = $ 32.20
3P .29 x 370 = $ 107.30
SM .08 x 255 = $ 20.40
2S .52 x 200 = $ 104.00
3S .04 x 165 = $ 6.60
$ 270.50

($6,150,233)

LAKE TOP)Long Log)

SALES					
DF	2570 MBF @ $ 229	$ 588,530			
WF	290 MBF @ $ 145	42,050			
SP	260 MBF @ $ 225	58,500			
Cull	185 MBF @ $ 100	18,500			
			Total	$ 707,580	
			Current Market Value		$ 226.79/MBF
COSTS (Fixed)					
DF	2570 MBF @ $ 58.75	$ 150,988			
WF	290 MBF @ $ 23.89	6,928			
SP	260 MBF @ $116.42	30,269			
Cull	185 acres @ $ 12.59	2,329			
Slash	3120 MBF @ $ 6.25	19,500			
Rd. Maint	3120 MBF @ $ .79	2,465			
		$ 234,689			
(Variable)					
Logging	3744 MBF @ $ 80.00	299,520			
Trucking	3744 MBF @ $ 35.00	131,040			
Taxes & Scale	3120 MBF @ $ 9.00	28,080			
		$ 458,640			
			Total Cost	$ 693,329	
			Current Market Cost		$ 222.22/MBF
			Difference in Value		$ 4.57/MBF
		Actual Contract Cost on 7/20/82		$1,056,912 or	$ 338.75/MBF
			DIFFERENCE IN VALUE		($ -111.96/MBF)

DF Value 3P .20 x 370 = $ 74.00
2S .66 x 200 = $132.00
3S .14 x 165 = $ 23.10
$229.10

($349.332)

LEFT (Long Log)

SALES					
DF	6220 MBF	@ $ 226	$1,405,720		
Pine	1310 MBF	@ $ 225	294,750		
POC	30 MBF	@ $ 800	24,000		
SC	900 MBF	@ $ 100	90,000		
XP	510 MBF	@ $ 80	40,800		
			Total	$1,855,270	
			Current Market Value		$ 245.41/MBF
COST (Fixed)					
DF	6220 MBF	@ $ 74.91	$ 465,940		
Pine	1310 MBF	@ $ 167.72	219,713		
POC	30 MBF	@ $ 331.20	9,939		
Slash	7560 MBF	@ $ 4.72	35,683		
Cull	225 acres	@ $ 164.88	37,098		
Rd. Maint.	7560 MBF	@ $ .72	5,443		
			$ 773,816		
(Variable)					
Logging	9828 MBF	@ $ 80.00	$ 786,240		
Trucking	9828 MPF	@ $ 35.00	343,980		
Rock	230 cy	@ $ 5.00	1,150		
Taxes & Scale	7560	@ $ 9.00	68,040		
			$1.199,410		
			Total Cost	$1,973,226	
			Current Market Value		$ 261.01/MBF
			Difference in Value		($ -15.61/MBF)
		Actual Contract Cost	on 7/20/82	$5,637,365 or	$ 745.68/MBF
			DIFFERENCE IN VALUE		($ -500.27/MBF)

DF Value

3P .17 x 370 = $ 10.69
SP .02 x 255 = $ 5.10
2S .72 x 200 = $142.00
3S .10 x 165 = $ 16.50
$226.50

($3,782,095)

LOBAN (Long Log)

SALES				
DF	4400 MBF @ $ 212	$ 932,800		
SP	180 MBF @ $ 225	40,500		
Tan Oak	200 MBF @ $ 100	20,000		
Cull	40 MBF @ $ 100	4,000		
		Total	$ 997.300	
		Current Market Value		$ 217.75/MBF
COST (Fixed)				
DF	4400 MBF @ $ 39.94	$ 171.336		
SP	180 MBF @ $ 173.47	31,225		
Slash	4580 MBF @ $ 11.30	51,754		
Cull	154 acres @ $ 65.06	10,019		
Rd. Maint.	4580 MBF @ $ 4.38	20,060		
		$ 284,394		
(Variable)				
Logging	5496 MBF @ $ 60.00	$ 329,760		
Trucking	5496 MBF @ $ 25.00	137,400		
Taxes & Scale	4580 MBF @ $ 9.00	41,220		
Rock	1820 cy @ $ 5.00	9,100		
		$ 517,480		
		Total Cost	$ 801,874	
		Current Market Value		$ 175.08/MBF
		Difference in Value		$ 42.67/MBF
	Actual Contract Cpst on 7/21/82		$2,922,938 or	$ 638.20/MBF
		DIFFERENCE IN VALUE		($-420.45/MBF)

DF Value (long log)

3P .13 x 370 = $ 48.10
SP .04 x 255 = $ 10.20
2S .48 x 200 = $ 96.00
3S .35 x 165 = $ 57.75
$ 212.05

($1,925,638)

LOWER (Short Log)

SALES				
DF	4940 MBF @ $ 175	$ 864,500		
SP	620 MBF @ $ 225	139,500		
PP	140 MBF @ $ 170	23,800		
WH				
POC	90 MBF @ $ 800	72,000		
HDW	110 MBF @ $ 100	11,000		
		Total	$1,110,800	
		Current Market Value		$ 188.27/MBF
COST (Fixed)				
POC	90 MBF @ $ 315.59	$ 28,403		
HDW	110 MBF @ $ -			
Slash - Rds.	5900 MBF @ $ 11.25	66,375		
		$ 94,778		
(Variable)				
Oil	5900 MBF @ $ 45.00	$ 265,500		
Logging	6800 MBF @ $ 65.00	442,000		
Trucking	6800 MBF @ $ 30.00	204,000		
S.P.	620 MBF @ $ 70.43	43,666		
P.P.	140 MBF @ $ 9.24	1,294		
DF	4940 MBF @ $ 39.49	195,080		
		$1,151,540		
		Total	$1,246,319	
		Current Market Value		$ 211.24/MBF
		Difference in Value		($ - 22.97/MBF)
	Actual Contract Cost on 7/21/82		$2,066,754	or$ 350.30/MBF
		DIFFERENCE IN VALUE		($ -162.03/MBF)
				($955,954)

MINERAL (Long Log)

SALES		
DF	5710 MBF @ $ 230	$1,313,300
POC	190 MBF @ $1200	228,000
Tan Oak	20 MBF @ $ 100	2,000
SC	140 MBF @ $ 100	14,000
XP	50 MBF @ $ 70	3,500

Total $1,560,800

Current Market Value $ 264.54/MBF

COST (Fixed)		
DF	5710 MBF @ $ 115.86	$ 661,560
POC	190 MBF @ $ 377.22	71,672
Tan Oak	174 acres @ $ 1.85	322
Cull	174 acres @ $ 55.02	9,573
Slash	5900 MBF @ $ 12.09	71,331
Rd. Maint.	5900 MBF @ $ 5.97	35,223
		$ 849,681
(Variable)		
Logging	6110 MBF @ $ 80.00	488,000
Trucking	6110 MBF @ $ 30.00	183,300
Taxes & Scale	5900 MBF @ $ 9.00	53,100
		$ 284,400

Total $1,134,081

Current Market Cost $ 192.22/MBF

Difference in Value $ 72.32/MBF

Actual Contract Cost on 7/21/82 $4,281,090 or $ 725.61/MBF

DIFFERENCE IN VALUE ($ -461.07/MBF)

DF Value (long logs)			
	2P	.01 x 460 =	$ 4.60
	3P	.16 x 370 =	$ 59.20
	SM	.08 x 255 =	$ 20.40
	2S	.63 x 200 =	$126.00
	3S	.12 x 165 =	$ 19.80
			$230.00

($2,720,290)

PISTOL ROCK (Long Log)

SALES				
DF	6020 MBF @ $ 250	$1,505,000		
POC	50 MBF @ $1000	50,000		
Cull	300 MBF @ $ 100	30,000		
		Total	$1,585,000	
		Current Market Value		$ 261.12/MBF
COST (Fixed)				
DF	6020 MBF @ $ 141.06	$ 849,181		
POC	50 MBF @ $ 357.15	17,858		
Cull	201 ac @ $ 26.76	5,379		
Slash	6070 MBF @ $ 8.77	53,234		
Rd. Maint.	6070 MBF @ $ 4.24	25,737		
		$ 951,388		
(Variable)				
Logging	7284 MBF @ $ 75.00	546,300		
Trucking	7284 MBF @ $ 25.00	182,100		
Taxes & Scale	6070 MBF @ $ 9.00	54,630		
Rock	3855 cy @ $ 5.00	19,275		
		$ 802,305		
		Total	$1,753,693	
		Current Market Cost		$ 288.91/MBF
		Difference in Value		($ -27.79/MBF)
	Actual Contract Cost on 7/21/82		$4,263.672 or	$ 702.42/MBF
		DIFFERENCE IN VALUE		($ -441.30/MBF)

DF Value (long log)	2P .06 x 460 =	$ 27.60
	3P .22 x 370 =	$ 81.40
	SM .03 x 255 =	$ 7.65
	2S .57 x 200 =	$ 114.00
	3S .12 x 165 =	$ 19.80
		$ 250.45

($ 2,678,672)

QUOSATANA HELICOPTER (Long Log)

SALES				
DF	5850 MBF @ $ 278	$1,626,300		
POC	1130 MBF @ $1000	1,130,000		
SP	290 MBF @ $ 225	65,250		
TO	430 MBF @ $ 100	43,000		
SC	560 MBF @ $ 100	56,000		
XP	310 MBF @ $ 80	24,800		
		Total	$2,945,350	
		Current Market Value		$ 405.14/MBF
COST (fixed)				
DF	5850 MBF @ $ 51.44	$ 300,924		
POC	1130 MBF @ $ 588.24	664,711		
SP	290 MBF @ $ 239.53	69,464		
Tan Oak	214 ac. @ $ 38.16	8,166		
Cull	214 ac. @ $ 48.22	10,191		
Slash	7270 MBF @ $ 7.84	56,997		
Rd. Maint.	7270 MBF @ $ 5.98	43,475		
		$1,153,928		
(Variable)				
Logging (Skyline)	4838 MBF @ $ 80.00	$ 387,040		
Logging _Heli	3390 MBF @ $ 170.00	576,300		
Trucking	8228 MBF @ $ 35.00	287,980		
Taxes & Scale	7270 MBF @ $ 9.00	64,430		
		$1,316,750		
		Total	$2,470,678	
		Current Market Cost		$ 339.85/MBF
		Difference in Value		$ 65.29/MBF
	Current Contract Cost on 7/21/81		$7,025,254 or	$ 966.33/MBF
		DIFFERENCE IN VALUE		($ -561.19/MBF)

DF Value (long log)

1P .03 x 520 = $ 15.60
2P .10 x 460 = $ 46.00
3P .26 x 370 = $ 96.20
SM .03 x 255 = $ 7.65
2S .49 x 200 = $ 98.00
3S .09 x 165 = $ 14.85
$ 278.00

($4,079,904)

UPPER STONEHOUSE

SALES				
DF	4050 MBF @ $ 246	$ 996,300		
Tan Oak	100 MBF @ $ 100	10,000		
SC	390 MBF @ $ 100	39,000		
XP	230 MBF @ $ 80	18,400		
		Total	$1,063,700	
		Current Market Value		$ 262.64/MBF
COST (fixed)				
DF	4050 MBF @ $ 97.18	$ 393,579		
Tan Oak	77 ac. @ $ 89.83	6,917		
Cull	77 ac. @ $	28,229		
Slash	4050 MBF @ $ 4.44	17,982		
Rd. Maint	4050 MBF @ $ 9.14	37,017		
		$ 483,724		
(variable)				
Logging	4860 MBF @ $ 80.00	388,800		
Trucking	4860 MBF @ $ 32.00	155,520		
Taxes & Scale	4050 MBF @ $ 9.00	36,540		
		$ 580,770		
		Total	$1,064,494	
		Current Market Cost		$ 262.84/MBF
		Difference in Value		($ -.20/MBF)
	Current Contract Cost on 7/21/82		$2,934,865 or	$ 724/66/MBF
		DIFFERENCE IN VALUE		($-462.02/MBF)

DF Value 2P .05 x 460 = $ 23.00
(Long Log) 3P .20 x 370 = $ 74.00
SM .05 x 255 = $ 27.75
2S .60 x 200 = $120.00
3S .10 x 165 = $ 16.50
$246.00

($1,871,165)

WOOD TABLE (Long Log)

SALES						
	DF	7830 MBF	@ $ 266	$2,082,780		
	POC	330 MBF	@ $1000	330,000		
	WRC	70 MBF	@ $ 200	14,000		
	WH	130 MBF	@ $ 150	19,500		
	XP	340 MBF	@ $ 100	34,000		
	SC	420 MBF	@ $ 80	33,600		
				Total	$2,513,880	
				Current Market Value		$ 300.70/MBF
COST	(fixed)					
	DF	7830 MBF	@ $ 123.76	$ 969,041		
	POC	330 MBF	@ $ 805.59	265,845		
	WRC	70 MBF	@ $ 113.40	7,938		
	WH	130 MBF	@ $ 16.77	2,180		
	Slash	8360 MBF	@ $ 12.77	106,757		
	Rd. Maint.	8360 MBF	@ $ 20.93	25,551		
	Cull	132 ac.	@ $ 193.57	174,975		
				$1,552.287		
	(variable)					
	Logging	10032 MBF	@ $ 65.00	$ 652,080		
	Trucking	10032 MBF	@ $ 50.00	501,600		
	Rock	3010 cy	@ $ 5.00	15,050		
	Taxes & Scale	8360 MBF	@ $ 9.00	75,240		
				$1,243,970		
				Total	$2,796,257	
				Current Market Cost		$ 334.48/MBF
				Difference in Value		($ - 33.78/MBF)
				Current Contract Cost on 7/21/82	$5,757,876 or	$ 688.74/MBF
				DIFFERENCE IN VALUE		($ -388.04/MBF)

DF Values (long log)

2P .03 x 420 = $ 12.60
3P .36 x 370 = $133.20
SM .01 x 255 = $ 2.55
2S .54 x 200 = $108.00
3S .06 x 165 = $ 9.90
$266.00

($3,243,996)

Termination 3/31/84
2 year extension 3/31/86

DING TIMBER SALE (SBA)
(short log)

SALES				
DF	1907 MBF @ $ 190	$ 362,330		
PP	40 MBF @ $ 225	9,000		
SP	145 MBF @ $ 250	36,250		
WF	605 MBF @ $ 120	72,600		
		Total	$ 480,180	
		Current Market Value		$ 173.98/MBF
COSTS (fixed)				
DF	1907 MBF @ $ 6.95	$ 13,692		
PP	40 MBF @ $ 6.95	278		
SP	145 MBF @ $ 6.95	1,008		
WF	605 MBF @ $ 4.95	2,995		
Slash	2760 MBF @ $ 21.11	58,264		
Rd. Maint.	2/60 MBF @ $ 2.43	6,707		
		$ 82,944		
(variable)				
Logging	3312 MBF @ $ 45.00	$ 149,040		
Haul	3312 MBF @ $ 30.00	99,360		
Taxes	2760 MBF @ $ 18.00	49,680		
Scaling	3312 MBF @ $ 2.00	6,624		
		$ 304,704		
		Total	$ 387,648	
		Current Market Cost		$ 140.45/MBF
		Difference in Value		$ 33.53/MBF
	Actual Contract Cost on 7/27/82 (delivery cost $369,675 + bid $1,034,000) or			$ 508.58/MBF
		DIFFERENCE IN VALUE		($ 334.60/MBF)
				($923,495)

Termination 3/31/84
2 year extension 3/31/86

EAST TIMBER SALE
(short log)

SALES				
DF	7537 MBF @ $ 200	$1,507,400		
PP	144 MBF @ $ 250	36,000		
SP	718 MBF @ $ 275	197,450		
WF	714 MBF @ $ 120	85,680		
IC	106 MBF @ $ 140	14,840		
POC	73 MBF @ $1000	73,000		
		Total	$1,899,530	
		Current Market Value		$ 204.43/MBF
COSTS (fixed)				
DF	7537 MBF @ $ 106.94	$ 806,007		
PP	144 MBF @ $ 72.84	10,489		
SP	718 MBF @ $ 150.88	108,332		
WF	714 MBF @ $ 11.53	8,232		
IC	106 MBF @ $ 140.84	14,929		
POC	73 MBF @ $ 328.68	23,994		
Slash-deposits	9292 MBF @ $ 18.39	170,880		
		$1,119,703		
(variable)				
Logging	11150 MBF @ $ 50.00	$ 557,500		
Haul	11150 MBF @ $ 25.66	278,750		
Taxes	9292 MBF @ $ 18.00	167,256		
Scaling	11150 MBF @ $ 2.00	22,300		
		$1,025,806		
		Total	$2,145,509	
		Current Market Cost		$ 230.80/MBF
		Difference in Value		($ -26.47/MBF)

Actual Contract Cost on 7/27/82
(delivery cost $1,196,686 + bid $5,517,245) or $ 722.62/MBF

DIFFERENCE IN VALUE ($-518.17/MBF)

($4,814,401)

Termination 3/31/84
2 year extension 3/31/86

HAYPRESS MEADOWS TIMBER SALE (SBA)
(short log)

SALES				
DF	2174 MBF @ $ 185	$ 402,190		
PP	1170 MBF @ $ 225	263,250		
SP	162 MBF @ $ 225	36,450		
WF	561 MBF @ $ 120	67,320		
IC	28 MBF @ $ 140	3,920		
		Total	$773,130	
		Current Market Value		$ 188.80/MBF
COSTS (fixed)				
DF	2174 MBF @ $ 16.26	$ 35,349		
PP	1170 MBF @ $ 16.26	19,024		
SP	162 MBF @ $ 16.26	2,639		
WF	561 MBF @ $ 14.26	8,000		
IC	28 MBF @ $ 14.26	400		
Slash	4095 MBF @ $ 45.17	184,971		
Rd. Maint.	4095 MBF @ $ 4.29	17,568		
		$ 267,951		
(variable)				
Logging	4914 MBF @ $ 55.00	$ 270,270		
Haul	4914 MBF @ $ 30.00	147,420		
Taxes	4095 MBF @ $ 16.00	65,520		
Scaling	4914 MBF @ $ 2.00	9,828		
		$ 493,038		
		Total	$760,989	
		Current Market Cost		$ 185.83/MBF
		Difference in value		$ 2.97/MBF

Actual Contract Cost on 7/27/82
(delivery cost $695,577 + bid $1,210,000) or $465.34/MBF

DIFFERENCE IN VALUE ($-276.54/MBF)

($1,132,447)

Termination 3/31/85
2 year extension 3/31/87

MAPLE TIMBER SALE
(short log)

SALES					
DF	16000 MBF @ $ 210	$3,360,000			
SP	300 MBF @ $ 250	75,000			
			Total	$3,435,000	
			Current Market Value		$ 210.74/MBF
COSTS (fixed)					
DF	16000 MBF @ $ 101.40	$1,622,400			
SP	300 MBF @ $ 205.05	61,515			
Slash	16300 MBF @ $ 22.05	359,415			
Rd. Maint.	16300 MBF @ $ 2.42	39,446			
Surf. Rpl.	16300 MBF @ $ 1.91	31,133			
		$2,113,909			
(variable)					
Logging	25100 MBF @ $ 70.00	$1,757,000			
Haul	25100 MBF @ $ 30.00	753,000			
Taxes	16300 MBF @ $ 18.00	293,400			
Scaling	25100 MBF @ $ 2.00	50,200			
		$2,853,600			
			Total	$4,967,509	
			Current Market Cost		$ 304.76/MBF
			Difference in value		($ -94.02/MBF)

Actual Contract Cost on 7/27/82
(delivery cost $3,283,594 + bid $6,957,515) or $ 628.29/MBF

DIFFERENCE IN VALUE ($-417.55/MBF)

($9,897,609)

Termination 3/31/85
2 year extension 3/31/87

SPAN TIMBER SALE (SBA)
(short log)

SALES				
DF	4330 MBF @ $ 185	$ 801,050		
PP	90 MBF @ $ 200	18,000		
SP	490 MBF @ $ 215	105,350		
WF	40 MBF @ $ 120	4,800		
		TOTAL	$929,200	
		Current Market Value		$ 214.60/MBF
COSTS (fixed)				
DF	4330 MBF @ $ 34.66	$ 150,078		
PP	90 MBF @ $ 11.35	1,022		
SP	490 MBF @ $ 31.12	159,250		
WF	40 MBF @ $ 9.35	374		
Slash	4950 MBF @ $ 13.22	65,439		
Surf Rpl.	4950 MBF @ $ 1.92	9,504		
		$ 385,667		
(variable)				
Logging	6435 MBF @ $ 85.00	$ 546,975		
Haul	6435 MBF @ $ 40.00	257,400		
Taxes	4330 MBF @ $ 16.00	69,280		
Scaling	6435 MBF @ $ 2.66	12,870		
		$ 886,525		
		Total	$1,272,192	
		Current Market Cost		$ 293.81/MBF
		Difference in Value		($ -79.21/MBF)

Actual Contract Cost on 7/27/82
(delivery cost $961,468 + bid $2,010,000) or $ 686.25/MBF

DIFFERENCE IN VALUE ($ -471.65/MBF)

($2,042,268)

Termination	3/31/85
2 yr extension	3/31/87

WILSON TIMBER SALE (short Log)

SALES				
DF	5140 MBF @ $ 190	$ 976,600		
SP	80 MBF @ $ 190	15,200		
		Total	$1,133,250	
		Current Market Value		$ 217.10/MBF
COSTS (fixed)				
DF	5140 MBF @ $ 11.87	$ 61,011		
SP	80 MBF @ $ 65.08	5,206		
HWD	1230 MBF @ $ 2.00	2,460		
Slash	5220 MBF @ $ 3.25	16,965		
Surf Rpl.	5220 MBF @ $ 1.10	5,742		
		$ 91,384		
(Variable)				
Logging	6786 MBF @ $ 60.00	$ 407,160		
Haul	6786 MBF @ $ 38.00	257,868		
Taxes	5220 MBF @ $ 14.00	73,080		
Scaling	6786 MBF @ $ 2.00	13,572		
		$ 751,680		
		Total	$ 843,064	
		Current Market Cost		$ 161.51/MBF
		Difference in Value		$ 55.59/MBF
	Actual Contract Cost on 7/27/82 (delivery cost $774,387 + bid $2,115,066) or			$ 553.54/MBF
		DIFFERENCE IN VALUE		($ -336.44/MBF)

($1,756,203)

Termination 3/31/86
NO EXTENSION

CEDAR TIMBER SALE
(short log)

SALES				
DF	5090 MBF @ $ 190	$ 967,100		
PP	340 MBF @ $ 300	102,000		
SP	1640 MBF @ $ 325	533,000		
WF	100 MBF @ $ 120	12,000		
IC	40 MBF @ $ 140	5,600		
POC	40 MBF @ $1200	48,000		
		Total	$1,667,700	
		Current Market Value		$ 230.02/MBF
COSTS (fixed)				
DF	5090 MBF @ $ 12.04	$ 61,284		
PP	340 MBF @ $ 81.42	27,683		
SP	1640 MBF @ $ 109.75	179,498		
WF	100 MBF @ $ 10.04	1,004		
IC	40 MBF @ $ 10.04	402		
POC	40 MBF @ $ 82.23	3,289		
Slash	7250 MBF @ $ 18.35	133,038		
Rd. Maint.	8058 MBF @ $ 1.74	14,021		
Surf. Repl.	8058 MBF @ $ 11.38	91,700		
		$ 511,919		
(variable)				
Logging	9000 MBF @ $ 75.00	$ 675,000		
Haul	9000 MBF @ $ 49.00	441,000		
Taxes	7250 MBF @ $ 20.00	145,000		
Scaling	9000 MBF @ $ 2.00	18,000		
		$ 1,279,000		
		Total	$1,790,919	
		Current Market Cost		$ 247.02/MBF
		Difference in value		($ -17.00/MBF)

Actual Contract Cost on 7/27/82
(delivery cost $1,531,780 + bid $2,845,000) or $ 603.69/MBF

DIFFERENCE IN VALUE ($-373.67/MBF)

(2,709,080)

STATEMENT OF GARY E. JONES, VICE PRESIDENT, SUMMIT TIMBER CO., DARRINGTON, WASH.

Mr. JONES. My name is Gary Jones. I'm vice president of Summit Timber Co., in Darrington, Wash. Darrington is a small community of 1,000 people nestled in the Cascade Mountains 80 miles northeast of Seattle. Summit is a family owned corporation founded 40 years ago.

I am here today not only representing Summit Timber management, but also our employees and the town of Darrington. Our concern here is the same as other mills in the Northwest—survival.

We favor the forest industry compromise of termination, extension, and effective purchaser credits. Summit is 95 percent dependent on national forest timber. We must buy Federal timber to operate. During the decade of the 1970's, we were forced to bid high timber prices because of two major factors: declining supply and inflation.

Supply became a factor because of uncertainty caused by wilderness additions, land use restrictions and Forest Service budget problems. The second factor, inflation, became a problem because we were bidding on timber to be removed 2 to 7 years in the future. When bidding against the competition one had to use an inflation factor of from 8 to 12 percent to have a chance to buy the sale. This was realistic at the time because we had seen our product increase at or above the inflation rate during the 1970's.

Some may say we took a gamble and lost, so why should we receive relief? My answer is, when we bid we were bidding under fiscal policy established by the past administrations, but we now are forced to harvest these sales under fiscal policies set by a new administration. We agree with what the President is doing and my hope is that we as an industry, and especially the small independent businesses, can survive to help strengthen our Nation. We need a chance, however, to harvest timber sales that can be purchased under the conditions of this new fiscal policy. We feel that passing our industry bill will give us that chance. It will keep our timber supply from being tied up in the courts as a result of defaults and bankruptcies resulting from default damages.

We have 185 million board feet of Forest Service timber under contract at a delivered log cost of $360 per thousand board feet. On today's log market that same quality timber can be delivered at $250 per thousand board feet. The $110 difference would create a loss of over $20 million for Summit Timber Co. That, added to losses of more than $10 million in 1981 and 1982 would nearly equal Summit Timber Co.'s total net worth.

I might add that those losses occurred because we felt obligated to harvest the timber that we had under contract.

Our 450 union and salaried employees have done their part by taking a 25-percent cut in pay. With this help, cash flow has stayed fairly stable and we have kept our employees working. But if we are forced to operate these contracts we have no choice but to default and close our doors, leaving the town of Darrington with 50-percent unemployment.

We think it is to our country's benefit to keep the independent sawmill operator in business so we can continue to supply the jobs necessary to keep local communities strong.

Thank you for your time. I will try to answer any questions you may have.

Senator **HATFIELD**. Thank you, Mr. Jones.

STATEMENT OF GERHART BENDIX, SECRETARY-TREASURER, HI-RIDGE LUMBER CO., YREKA, CALIF.

Mr. **BENDIX**. Mr. Chairman, I am Gerhart Bendix, secretary-treasurer of Hi-Ridge Lumber Co., Yreka, Calif. We are a small business that has been buying and processing national forest timber for 29 years. We operate primarily on the Klamath National Forest where there has been intense competition for timber—an area where stumpage rates have increased several fold in the past 20 years.

In order to compete successfully for timber, we built a new mill in 1971. It is designed and equipped to get the most value out of a sawlog as efficiently as possible. We employ 76 people.

Until the catastrophic loss of the housing market so severely damaged the entire lumber industry, we have been able to operate with high-priced timber and expected to continue to do so. If we were to continue to operate, we had to bid the high stumpage rates common in our area.

When many of today's timber sale contracts were signed a few years ago, neither the seller, the Forest Service nor the buyers, mill operators dependent on national forest timber, anticipated the drastic change in lumber demand that has made completion of the contracts economically infeasible.

If the Forest Service had not granted contract term extensions in 1980 and 1981, many purchasers would be in default today. The granting of those extensions, although necessary until Congress can develop a final solution, should only be considered as temporary relief. The requirement for extension deposits and interest payments will force some purchasers to default on contracts because of the poor cash flow position that most businesses now face.

An analysis of Forest Service data by George A. Craig, registered professional forester, leaves no doubt that most of the sales purchased in California prior to the first quarter of 1981 are not operable today at a break-even point by an operator of average efficiency. Because of increasing operational costs, it is likely that they will be losers in the future under the best anticipated markets. More details of this important report will be summarized for you in subsequent hearing presentations.

Industry representatives, with assistance from Senators Hatfield and McClure have worked diligently to develop a consensus on necessary details for timber sale contract legislation. Agreement included three major concepts:

One, there is need to permit timber sale contract termination with the resale of the timber to be financed by the original contract holder and the timber returned to the market in an orderly manner. This will permit timber to be bid at current market prices and operations to begin as markets improve. Much discussion and negotiation resulted in a termination limitation of no more than 40 percent of the timber under contract.

Two, contract term adjustments, and I wish to stress the term "contract term adjustments", of the remaining volume is necessary to permit a melding of the remaining timber in with the new purchases, as product values increase over the next 3 to 5 years.

Three, changes in purchaser credit procedures are needed that will eliminate ineffective purchaser credit and permit the transfer between different forests and between purchasers. Cash flow of both small and large businesses are seriously restricted because of that limitation. As a condition of timber sale contracts, purchasers must build permanent roads of long-term value. In theory they are to be compensated for the cost of road construction by purchaser credit as an offset against stumpage charges. In some instances there is not enough value to meet road costs, causing ineffective purchaser credit. Under many Forest Service contracts, stumpage charges drop to some extent with reductions in lumber prices. As a consequence, there again is insufficient value in the timber to permit the full use of earned Purchaser Credit, resulting in more ineffective purchaser credit.

The proposed changes in the application of purchaser credit are an important part of the overall legislative package that has been developed within the industry and we understand with the concurrence of Senators Hatfield and McClure, however, it is not included in S. 2809. This will be discussed in more detail by others.

Federal timber sale programs are important to millions of Americans. The Federal Government owns over half of the softwood sawtimber on commercial forest lands in the United States, and over 60 percent in California. Its policies have always been and will continue to be a major factor in the welfare of the housing and timber industries, and they are ovbiously important to the communities and counties that are dependent upon those industries for employment and revenue.

And here I would like to put into the record a resolution in support of U.S. Forest Service and BLM timber contract legislation passed by the board of supervisors of Siskiyou County where it says:

> Whereas, Siskiyou County is in a severely depressed economic condition; and
>
> Whereas, one of the basic industries of the area is timber; and
>
> Whereas, the lack of economic activity has put people out of work resulting in foreclosures and family bankruptcies and has brought financial crisis upon local government; and
>
> Whereas, if the timber purchasers are not allowed some relief from their contracts their only alternative is bankruptcy or defalut.
>
> Now, therefore, be it resolved that the Board of Supervisors of the County of Siskiyou does hereby strongly support the U.S. Forest Service and BLM contract relief legislation now under consideration in Congress.
>
> Passed and Adopted this 13th day of August, 1982, by the following vote:
>
> Ayes: Supervisors, Frey, Steinhaus and Zink.
>
> Notes: None.
>
> Absent: Supervisor Mattos.

These policies are established by law. It is the law that the national forests are, in part to: "furnish a continuous supply of timber for the use and necessities of citizens of the United States." (16 U.S.C. 475) with "due consideration" of the relative values of various resources (16 U.S.C. 529).

Two, "Achieve and maintain in perpetuity a high-level annual or regular periodic output of timber and other resources without impairment of the productivity of the land." (16 U.S.C. 531).

Three, "Use all practicable means and measures in a manner calculated to foster and promote the general welfare, to create and maintain conditions under which man and nature can exist in productive harmony, and fulfill the social, economic and other requirements of present and future generations of Americans." (42 U.S.C. 4331)

The May 18, 1982 report by George A. Craig, "Forest Service Timber Sale Contracts in California" concludes:

> Prompt government action appears dictated when these obligations under law are considered along with the governments past contributions to the problem. A large number of inoperable timber contracts have limited time and no prospects of becoming operable. Without government action it is reasonable to expect the threat of more business failures and more injury to dependent communities will become a reality. The policy question today is to what extent the government should go in relieving timber purchasers of their obligations under these contracts. Not the least of justified options is to recognize that for various reasons the system has failed, it is time for contract cancellations without penalty and a new start, as the Congress did in 1935.

As you are aware, Public Law No. 38 of the 74th Congress authorized in the public interest the cancellation of national forest timber sale contracts without penalty, where application was made within 1 year.

We urge your consideration of that recommendation along with contract term adjustments and needed changes in purchaser credit.

Our thanks to you for the interest and time you are spending on this important issue. I will be pleased to answer questions that you may wish to ask.

Senator HATFIELD. Thank you, Mr. Bendix.

Mr. Ehinger, your charts and information that you provided in your testimony will be very helpful, I know. Do you have any statistics in addition to these on what the overall dollars would be to the Federal Government and the State of Oregon if massive contract defaults actually occur?

Mr. EHINGER. We've never run a calculation on what it would cost the Government.

Senator HATFIELD. You don't have any information of that type?

Mr. EHINGER. The Forest Service has run some and it's based on certain assumptions. This was purely a market calculation which we did, and the total negative on these three National Forests was $1,300 million. This represents about 50 percent of the public timber in western Oregon, the balance of which is similar, so you're looking at loss to the operators on current markets in excess of $2 billion. That's the only way I can qualify it at this time.

Senator HATFIELD. Mr. Emmerson, Mr. Jones, Mr. Bendix, we thank you very much for your testimony this morning.

All right, we'll have the next panel. There's a slight revision in the printed agenda.

STATEMENT OF ALAN SALTMAN, ON BEHALF OF AARON U. JONES, PRESIDENT, SENECA SAWMILL CO., EUGENE, OREG.

Mr. SALTMAN. I'm Alan Saltman, I'm here appearing on behalf of Mr. Jones who regrets he cannot attend this morning. Mr. Jones would like to submit his statement for the record. In that statement he suggests there may be a need to use different remedies for different areas of the country. Termination in the Douglas fir region and termination and contract adjustments in other areas; also an area by area antispeculative measure may be required. And it is his position that relief of the nature proposed would not in fact cost the Government.

I'll be here to respond to any questions the committee might have.

Senator HATFIELD. Thank you very much. We're pleased to have you sit in in the absence of Mr. Jones, Mr. Saltman.

[The prepared statement of Mr. Jones follows:]

Remarks of Aaron U. Jones, President, Seneca Sawmill Company
90201 Highway 99, Eugene, Oregon 97402
with regard to S.2805 and S.2818

Mr. Chairman, I would like to thank you and the members of the subcommittee for the opportunity to present my views on the legislative relief being considered with regard to outstanding federal timber sale contracts.

There is no need for me to reiterate in detail the terrible conditions that exist in the forest products industry. Other witnesses have done that. The facts are simply that:

- housing starts are down,
- timber harvesting is down,
- employment is down,
- receipts by federal, state and county governments are greatly down as a result.

The situation in my view is as bad or worse as that which existed during the great depression. The effect on governmental receipts is even worse than in the depression because of a dramatic shift toward public timber as a source of raw materials since that time.

As the Forest Service has recently stated, "the current economic situation in major sections of the forest products industry can only be described as depressed". Likewise, as the Chief himself has found, it is in the substantial overriding public interest to act.

In response to this dismal situation, several proposals have been introduced. They are S.2805 and HR 6913 (which essentially provide for the termination of a portion of a company's timber sale contracts and the extension and/or price modification of remaining contracts) and S.2818 (which provides for the adjustment of contract length without penalty for a period of time equal to the original term of the contract (not to exceed 5 years)).

As noted above, the proposed solutions to the general problem are varied. Therefore, at this point Congress must first note that different problems effect various segments of the industry and recognize that while the situation is universally bad within the industry, a general solution may solve very little.

The Congress should also note that some definitive action must be taken now. Every day that passes in this period of uncertainty causes new and unexpected problems to arise.

1. Suggestions for the Douglas Fir Subregion

In the Douglas Fir subregion, which is comprised of the western portions of the states of Oregon, Washington and Northern California, outstanding timber sales purchased in previous years are economically inoperable both today and for the foreseeable future. This is true because of the extreme imbalance between the high fixed prices[*/] at which they were purchased and the depressed values at which the finished lumber products from these sales can be sold. Absent a radical shift in the pace of housing construction (something which does not loom on the horizon)

[*/] It should be noted that these sales were purchased at flat rates rather than at rates subject to escalation/de-escalation as in other areas.

markets for finished wood products threaten to remain anemic far into this decade.

Extension of these contracts would do very little in terms of providing relief to the industry, maintaining the stability of the communities in which mills are located, and generating employment. In fact, merely extending these sales will have a severely negative effect on any number of companies presently up against the financial ropes. The magnitude of the financial crisis facing these firms can be seen in the fact that at prices bid in 1979 the average cost of only a 4 month supply of timber is equal to the average purchaser's present net worth. Since most companies have a two year supply of timber under contract, it is clear that absent relief profound losses will be incurred if these sales were harvested. These tremendous losses are presently being viewed as liabilities on the companies' balance sheets by banks and bonding companies, among others. Thus, not only is the ability of these companies to borrow the monies necessary to sustain themselves effected but so is their ability to secure the bonding which is vital to continued operations. Absent immediate termination of these sales the very existence of these companies is in extreme jeopardy as is the existence of the industry as it presently exists in the Douglas Fir subregion.

Moreover, granting further extensions does not add to present employment or harvesting levels especially when the sole reason for granting extensions lies in the hope that the market for finished products will soon return to reasonable levels so as to make the sales economically harvestable. Rather, based on this premise it would be difficult to deny additional non-productive extensions should the hoped for return of the market not occur.

Accordingly, extensions will also have a serious negative effect on the ability of the government to manage its timber lands in the sense that certain of these lands, which silviculturally may become in need of harvesting, will be "locked up" for long periods by contract and thus difficult, if not impossible, to truly manage.

Furthermore, extensions will only give false encouragement to some companies who will as a result return to the practice of bidding for sales at prices beyond the break even point. Their ostensible purposes will be to bring down their average price of timber under contract. However, by doing so the only things that will happen are that average stumpage prices will rise while timber volume encompassed by economically inoperable sales will increase.

The only solution that is viable in the Douglas Fir subregion is to

(1) grant each purchaser the right to terminate any and all sales in the subregion just as Congress did back in 1935 when blanket terminations were legislated
(2) require that each purchaser pay for the cost of reselling the timber sale so terminated (up to $10,000 per sale)
(3) require that any sale not terminated be operated as required by contract without any further "emergency type" modifications or extensions.

(a.) Additional antispeculative measures

In my view, terminating and then reselling timber sales in conjuntion with a reasonable allowable cut would assure adequate supplies of raw materials at reasonable prices (something which is necessary to preclude the present situation in the Douglas Fir subregion from arising again). However, additional care should be taken to preclude any future return to runaway bid prices should the market show some signs of recovery.

I recognize that the Forest Service and BLM have made and are contemplating making other steps in this regard. However, I would also suggest the implimentation of measures which would permit only responsible bidders to participate in oral auctions. (Please note, I am not suggesting the use of blanket prequalification as this could have a negative impact on a new entry into the industry. However, I am saying that a determination of the responsibility of all participating companies should be made before the oral auction phase of competition so that the competition thereafter is only between bonafide bidders. I am advised by counsel that such an approach is both entirely feasible and consistent with all competitive bidding requirements.)

In addition, as another antispeculative measure, I would suggest that there be a repeal of all regulations that permit or encourage nonresponsible bidders to bid up timber sales with impunity. In this regard, I would commend the subcommittee's attention to Forest Service regulation 36 CFR §223.7(c) which permits any company to drive up the price for timber at oral auction, thereafter be found nonresponsible and inelegible for award at which time "award at the highest price bid may be offered to the next highest qualified bidder". In this and related circumstances, I would suggest a return to the previously used rule whereunder, all bids received from any concern which is later disqualified for award were stricken from the record and award was made to the qualified bidder which submitted the highest bid, at its first bid which exceeded other bids from qualified concerns.

Consideration should also be given to raising cash deposits payable at the time of contract execution from the present 5% of bid price to a higher level, on a subregion by subregion basis, whenever it appears that the average bid price within a subregion greatly exceeds the average appraised price within that subregion. This will apply antispeculative pressures where, when and if needed but only where, when and if needed and should not unduly burden other geographic areas with the solutions to problems that are unique to a particular subregion.

In this regard, I would favor a formula such as this:

Difference between average bid price & average appraised price (i.e., average over bid)	Cash Deposit
0 -25%	5%
26%-50%	10%
51%-75%	15%
76%-	20%

II. Basic Relief for Other Regions

The problem within the industry that exists in regions other than the Douglas Fir subregion is significantly different. Outstanding federal timber sales in other regions may not be permanently inoperable. This is true because these sales unlike these in the Douglas Fir subregion were not bought at excessive flat rate prices and the sale prices were subject to escalation/de-escalation based on market conditions. Indeed, to date, stumpage prices for this timber have de-escalated on the average of $100 per thousand board feet.

However, this is not to say that there may not be instances in which termination is entirely appropriate and that, as such, granting purchasers a right of termination in these areas is not only fair but also a necessary option. Nevertheless, the fact remains that these timber sales do not need anywhere near the level of recovery of the finished products market to become operable that the sales in the Douglas Fir subregion require. As such, if the holders of these sales were simply afforded the opportunity to request and receive additional time in the form of contract term adjustments made without penalty or payment, operability problems that currently exist with the sales may be worked out. In this regard, the suggestion in S.2818 for contract term adjustment equal to the length of the original term of the contract (not to exceed 5 years) would appear to be a particularly effective one where within the adjusted term the sales would be operable. Relief of this sort, as an adjunct to a right to termination, would seem entirely appropriate in regions other than the Douglas Fir subregion with its unique problems.

III. Scope of Relief

At this juncture some discussion as to the scope of proposed relief may be in order. S.2805 and HR 6913 as presently written would afford relief but would limit that relief to those companies which could make "a showing of economic hardship."

Even as the president of a company that is very small in comparison to the giants which exist in our industry, I cannot favor this limitation. Our entire industry is in trouble. The facts, stated broadly at the outset of my remarks and those raised by others in their presentations to the Committee, clearly indicate that we are an industry in distress. However, the present legislation smacks of the analogy that the ship has gone down, and lifeboats are picking up survivors with the admonition to "take one and leave one!"

Any attempt at this time to discriminate between companies on the basis of need will, in my view, ultimately lead only to unfairness, inequity and finally to litigation. It is far better that a few companies get relief which might not be critical to their ultimate survival than for a single company to be denied relief that is in fact critical to its survival simply because that company did not fall within some arbitrary definition of economic distress.

It is for not unanalogous reasons that the partial nature of the termination authorized by S.2805 and HR 6913 leads me to conclude that enacting this legislation without modification would again generate unfairness and would not maximize the industry's survival rate. To permit only limited terminations, would disproportionately benefit some multiregional operators to the competitive detriment of the companies, both large and small, which operate solely within the Douglas Fir subregion. That is, a company with federal contracts both within and without the Douglas Fir subregion, if allowed to terminate a sufficient percentage of its volume under contract so as to liquidate all its high priced holdings in the Douglas Fir subregion would have gotten rid of the entire millstone that permanently inoperable sales represent. At the same time, a company operating sales solely within the Douglas Fir subregion, even if allowed to terminate the same percentage of its contractual holdings, would still be saddled with a monumental potential liability in the form of its remaining high priced sales to the point where the competitiveness of that company if not its continued existence would be seriously jeopardized.

As I said earlier, in my view no company in this time of general distress within our industry should be denied relief solely by virtue of its size or structure. Likewise, I feel that no company by virture of its size or structure should be allowed to benefit unduly from such legislation. Rather the legislative aim should be to return stability to the timber industry while at the same time not disturb the balance that has existed within the industry in recent years.

IV. The "Cost" of Relief

Some would have the Congress believe that the relief being discussed will amount to a huge reduction of assured receipts to the federal treasury.

I would hope to have you recognize that relief can be justified solely on dollars and cents grounds and that the added human benefit to be derived from such relief is wholly apart and in addition. That is, in order to assess the impact of this legislation the Congress must critically analyze, and not merely accept at face value, the alleged amount and assuredness of the receipts which would be foregone if these timber sales were terminated.

By calculating the total current contract value of sales which would be terminated, less the total actual value that would be obtained from resale, a figure can and has been determined. However, whether this figure is anywhere near the actual amount of foregone receipts is dependent on one very salient factor--Could the federal government recoup this amount of money from purchasers if no relief were granted? The answer to that question is, in my opinion, clearly no.

As stated by the Forest Service in its report on implications of timber sale termination legislation, "if economic conditions do not improve and the high price sales are defaulted, the only receipts will be through collection of damages and any resale value. If many operators go bankrupt it will not be possible to make a full collection of damages even though there are sureties with each contract. Sureties are liable for a maximum of 10% of the contract value."

This can best be seen in the following example -

1) absent relief the purchaser, heavily in debt, suspends operations.
2) the timber sales expire uncompleted
3) banks & other mortgage holders assert their clear rights to the company's tangible assets (plant & equipment) (specified assets will be disposed of to meet the claims of these creditors)
4) bonding companies establish their position to specified assets and monies based on indemnity agreement with the company (specified assets will be disposed of to meet the claims of these creditors)
5) other secured creditors assert their rights to other tangible and intangible assets (specified assets will be disposed of to satisfy the claims of these creditors)
6) general unsecured creditors assert their claims
7) the company is probably put into involuntary bankruptcy proceeding by unsecured creditors
8) the timber sale is resold for much less than price under the original contract
9) the government attempts to collect the difference from the defunct company
10) the government sends a bill to the surety for the limited portion of damages covered by bond (Note sureties are liable for maximum of 10% of contract value)
11) the surety and/or referee in bankruptcy contest liability and assert any and all defenses of the defunct company
12) the matter is litigated for several years
13) if the government wins, the surety pays its percentage and the government, as another unsecured creditor, is paid only if there are unencumbered assets remaining (but then only on a percentage basis. Normally .05-20 on the dollar)
14) if the government looses - the government gets nothing

While this has gone on

- one less company exists in the industry
- one more step toward concentration has occurred
- competition is decreased
- the physical productive capacity represented by the company is lost forever
- the company's employees stop paying income taxes, social security taxes, etc.
- the government has to pay unemployment, and possibly welfare to the former employees
- the local tax base has decreased as the facility goes off the tax rolls

Moreover, it should be noted that even if some minor continuing effort to harvest these "unharvestable" sales were possible, to the extent that the federal treasury receives revenues from these sales, these receipts are being offset by significant corporate losses which, under the tax laws, permit the corporations to receive refunds of taxes paid in previous profitable years.

Based on the above and the fact that passage of appropriate relief will insure the existence of future competition and thus a reasonable level of federal receipts from timber sales, I feel that the government will in the long run make money from this legislation. This is especially true when one also considers that we are dealing with a live growing product, a tree, which is increasing in wood volume at 2% a year.

V. Market Shifts

Lastly, there are those who will urge the Congress not to adopt relief along the lines suggested herein and in part in S.2805 and HR 6913 for fear that such relief will permit timber products from the Douglas Fir subregion to invade retail markets traditionally dominated by other regions of the country. To these individuals, I would say that such a situation is not possible in view of the significant distance and freight rate differential which greatly work to the disadvantage of the operators in the Douglas Fir subregion and as such preclude the practical expansion of that region's markets for finished products. Moreover, the market invasion to be feared comes not from within the United States but indeed from without. That is, at present the Canadian government is substantially underwriting not only timber production but also greatly assisting Canadian companies by virtue of extremely favorable rail rates. As a result, Canadian imports, have reached astronomical levels in areas as far from Canada as the southeastern portion of the United States. For example, I am advised that 55% of the forest products sold in Georgia is Canadian. These imports in fact setting the prices in many retail markets. This unrelenting drive toward lower retail prices due to pressure from Canadian sources coupled with an unfavorable rail rate differential make it clear that Douglas Fir finished products could not successfully compete in anything other than its Western markets even in the unlikely event that the price for raw materials in the Douglas Fir subregion were to drop all the way down to the regulatory minimum base rates.

Mr. Chairman, again I thank you for the opportunity to have addressed this subcommittee. I hope that my comments and thoughts will help you in your deliberations.

STATEMENT OF DIANE DAVIDSON, OWNER/OPERATOR OF BIG BEAR SHOPPER, INC., WHITE CITY, OREG.

Mrs. Davidson. Thank you, Mr. Chairman. My name is Diane Davidson, and I own and operate a retail store in White City, Oreg.

My purpose in being here is not to directly lend support or opposition to either of these bills. Rather, I hope to convey to you the severe problems which exist for a business in a timber dependent community.

White City is the industrial center of Jackson County, Oreg. There are 20 lumber mills and remanufacturing plants located there. Most of these operations are running at curtailed rates, and several are completely shut down. The unemployment rate in the surrounding residential areas is in excess of 25 percent. The past 3 years have had a devastating effect on White City.

I am not an economist, but I think I understand the timber industry's prohlem. The high interest rates, resulting largely from Government's competition for money to support deficit spending, have killed the housing market. Skepticism over raw material supplies, double digit inflation, overoptimistic market predictions, and the relative financial ease with which timber can be held, led the industry to bid unwarranted prices.

I am not naive enough to believe these bills alone will correct or even significantly change our economic condition. This cannot happen without stimulating the entire economy. I even have to question legislation which would permit termination of legal contracts.

But the one thing I do see is a need to give all of us something to look forward to, a reason to hang on, because when the demand for forest products returns, the industry must be free to respond and become productive once again. If our mills and their supporting industries are dead and gone what then? How long can people continue to survive while we search for diversification, an activity which requires several years to produce noticeable results.

Even with my reluctance to support this type of legislation, it is time for action. The timber industry needs help. The housing and construction industry needs help, and I need help. Where else can we look except to you?

We can no longer waste time trying to affix blame. I don't think that is important any more. Results are what counts. We all need something to look forward to, a reason to survive.

When I found out I was going to be here, I called on several local businesses and associations to provide me with documentation of the economic devastation in our community. Their willingness to cooperate was absolutely overwhelming. I have enclosed a few of their letters with my testimony. Everyone wants to tell his story, and rightfully so. I wish they could have all been here.

For example, Jackson County Federal Savings & Loan Association informed that real estate defaults and repossessions have climbed from $143,000 for their year which ended June 20, 1979, to $1,442,000 for the year which ended June 30, 1982. Their delinquency rate for accounts 90 days and over has risen from $871,000 for the 1979 yearend to $5,334,000 for the 1982 yearend. These figures represent just one of our many lending agencies.

People and businesses are reaching the end of their rope. In an attached article you will note that unemployment in five Oregon counties is approaching 24 percent. That's a lot of men and women out of work.

Another example is provided by Pro West Real Estate. For the month of February 1980, the closings in Jackson County were $10.6 million. For the month of July this year, that figure is down to $4 million, a 62-percent decline. How can people cope with the news and economic predictions which talk of no recovery until 1984?

I built my store from the ground up. In June 1977 we opened and struggled as all new businesses do. We reached an annual sales volume in excess of $800,000 until October 1979, which marked the onset of the timber recession. Since that time we have been in a decline, both my business and my community. I have been forced to refinance my building, sell off assets to cover losses, and my payroll has gone from $10,000 a month to $2,000 a month.

Today, almost 3 years later I sit with a $300,000 loss carry forward, and no more assets to sell.

Mr. Chairman and members of the committee, my business won't be here in 1984, and neither will a lot of other businesses, large and small.

When does Government start playing by the same set of rules we do? We've cut back until we can cut no further. Yet the big issue in Congress is tax increases to meet uncontrolled deficit spending. How much more do you expect me and thousands like me to bear? More important, just how long do you think this Government, with all of its necessities, can exist without me?

The bills are not the solution. The only solution is economic recovery. Every day I see people come into my store with the most defeated attitude I have ever observed. These people need a reason to look ahead to a recovery. We are talking about a bandage job, but, many times the first step in saving a life is to stop the bleeding.

My community has been devastated. We are the brink of depression. We need help now.

Thank you.

Senator HATFIELD. Thank you very much.

[The attachments to Mrs. Davidson's statement follows:]

JCF JACKSON COUNTY FEDERAL SAVINGS & LOAN ASSOCIATION
Home Office 2 East Main Street Medford, OR 97501 (503) 776-0600

August 13, 1982

Mrs. Diane Davidson
2400 Antelope Road
White City, OR 97503

Dear Mrs. Davidson:

Pursuant to our discussion concerning the present economic situation and the effect it is having on the thrift industry, specifically Jackson County Federal Savings and Loan Association, I am more than happy to submit the following information.

It has always been the policy of Jackson County Federal's Board and Management to remain a leader in the industry for Southern Oregon. Jackson County Federal was formed in 1909 and presently has assets of $294,695,365.00. We have eight branch locations and the JCF Plaza, which is a combination administrative/office lease complex. Jackson County Federal is the largest regional savings and loan association in our market area. We feel this is attributable to knowing our market area and to aggressive and innovated management.

Regardless of our history, asset size, strength, marketing and management, Jackson County Federal today, finds itself in a very frustrating position due to high interest rates. The frustration is compounded by our inability to have control of the situation. The same frustrations are very evident in our local community and regardless of the numerous measures we as management have pursued, the underlying factor of continued high interest rates have eroded our efforts. Our industry and the Southern Oregon economy is very dependent upon the home building industry, and consequently, with high interest rates producing a peak Jackson County unemployment percentage of 16.4 in February of this year, we have noted a substantial increase in our home mortgage loan delinquencies. In order to give you an idea of the magnitude of the situation, enclosed you will find an exhibit of our home mortgage delinquency figures dated from June 30, 1979 through June 30, 1982. I might also add that our figures, when calculated upon a percentage of total assets, are below the average based upon figures provided from the Seattle Federal Home Loan Bank. The figures pretty well speak for themselves, particularly the dramatic increase from June of 1981 to June of 1982. It portrays a pretty dismal picture.

Thank you for your interest and concern for our local community, and should you need any further information or documentation, please feel free to contact me.

Yours very truly,

Jack D. Salter
Vice President/Secretary
Jackson County Federal
and Loan Association

JDS/ag
Enclosure

JACKSON COUNTY FEDERAL SAVINGS AND LOAN ASSOCIATION
SCHEDULE OF HOME MORTGAGE DELINQUENCIES
PERIOD 6/30/79 - 6/30/82

	6/30/79	6/30/80	6/30/81	6/30/82
Real Estate Owned (Foreclosed Properties)	$ 143,165.00	-0-	$ 111,532.00	$1,442,048.00
Total Scheduled Items (Delinquent Loans 90 Day Plus)	$ 871,055.00	$1,066,746.00	$1,000,587.00	$5,334,403.00
*Total Delinquent Loans (Delinquent Loans 60 Day Plus)	$1,291,241.00	$1,678,939.00	$1,987,622.00	$5,967,952.00

*Also includes total scheduled items.

4/21/82

In Oregon, the Recession Is Severe Because of Forest-Products Slump

WSJ

By Erik Larson
Staff Reporter of The Wall Street Journal

COOS BAY, Ore.—The union hall once occupied by Local 3-116 of the International Woodworkers of America is for sale. So many of the union's members lost their jobs that the local couldn't survive.

"We lost 800 members over two years," says Harold Walton, business agent of the local, which has merged with another in neighboring North Bend. Those 800 members had made up about 70% of the local's normal membership.

The Uneven Recession

Part of a Series

But then, times have been far from normal in Oregon. Like Michigan, it is dependent on one industry. Oregon's is forest products, now in its third year of deep recession as a consequence of the bust in housing. Oregon ranked fifth among the states in unemployment, at 12.5%, in February. In five counties, the rate was 20% or higher.

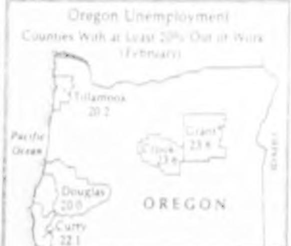
Tax delinquencies are rising. People are moving out of the most depressed counties. The shrinkage in revenue from timber sales off federal lands in the state now threatens to create more layoffs and governmental spending cuts around the state. "I think we're right on the edge of a full-fledged depression," says Edward Stevenson, chairman of the board of commissioners of Coos County.

Ever since 1856, when Coos Bay shipped its first load of lumber to San Francisco, it has been a leading port for wood products. Big and small companies built mills near the great forests of the nearby Klamath Mountains, and the Coast and Cascade Ranges. Along Route 101, the port's thoroughfare, a ridge of wood chips towers as high as the freighter moored behind it. Year round, the Christmas odors of sawed lumber, chipped wood and burning fir perfume the air.

South of town, the Al Peirce Lumber Co. stands empty. On a two-block stretch of North 10th Street, for-sale signs advertise five houses. "We were having a basketball game in my neighborhood," says Bruce Laird, a vice president of Western Bank and president of the Coos Bay Port Commission. "I was the only employed guy on my team."

The trouble started late in 1979. High interest rates began discouraging new home construction. That drove lumber prices down, but producers' costs stayed high. Companies began shutting down their mills and plants. In August 1979, Georgia-Pacific Corp. closed a plywood mill, tolling the bell for Local 3-116; 200 of its members had been working there, Mr. Walton says. In December, Al Peirce Lumber closed; in October 1980, a Georgia-Pacific hardboard plant; and in May 1981, Coos Head Timber Co.'s Bunker Hill sawmill. Temporary closings and curtailed work schedules generally prevail at those shops still operating. At another Coos Head Timber plant, Mr. Walton says, 65 union members have worked only three days a week for the past 14 to 15 months.

Oregon Unemployment
Counties With at Least 20% Out of Work (February)



Source: Oregon Employment Division

State Benefits Run Out

For many jobless workers, state benefits have run out. "We've had people running out of benefits for some time," says James D. Cunningham, manager of the Oregon state employment division's Coos Bay office. Mr. Walton says, "We've had quite a few people losing their homes or their automobiles." Mr. Stevenson says retail sales have probably shrunk by 20%, although no formal survey has been done.

Of the for-sale and for-rent signs around town, says banker Laird, "Three years ago there were no vacancies to speak of." Mr. Walton knows of workers who have left for Alaska, Texas, Oklahoma and Wyoming to get jobs. "I think people have faced reality," says John Anderson, a state labor economist.

Reality is closing in on Oregon's county governments. It's not that taxpayers are merely delaying payments. They also recently rejected 72% of 82 operating levies proposed by school districts across the state, according to the Oregon School Boards Association. Tax receipts are falling 20% below taxes payable in Coos County, Mr. Stevenson says.

Lost Timber Revenue

Historically, 31 of Oregon's 36 counties have depended to some degree on revenue they got as their share of timber sales from federal lands within their boundaries. Those revenues are dropping sharply. A third of Coos County's revenue typically came from former Oregon & California Railroad lands, now administered by the U.S. Bureau of Land Management. In 1981, the county got $5.8 million in federal land revenue; this year, it expects only $2.3 million.

"That's an impact you can't pick up by cutting the so-called fat," says Kessler Cannon, public lands specialist for the Association of Oregon Counties. Coos County may lay off civil servants or cut pay by 20%, reduce county services and eliminate some operations, such as an immunization clinic. Other counties have taken such steps. Deschutes County has laid off half its employes, Mr. Cannon says. "The biggest problem," he says, "is setting your priorities. What do you cut out? Cut out the library? Those are wrenching problems."

Coos Bay is trying—had been trying, in fact, even before the recession—to diversify the local economy. The slump set in just as the area was ready to start hawking space in a planned industrial park on a stretch of land called the North Spit. There's a coal field in the county, and there are hopes to export coal from the North Spit.

The state government, too, is trying to bolster tourist business and encourage cottage industry.

Some business does continue as usual. A Coos Bay shipbuilder has a string of back orders for barges, Mr. Laird says. Weyerhaeuser Co., with brief curtailments, has kept running, largely because the company remains a big exporter and owns so much of its own timberland that it can avoid costly purchases from federal lands. In February, 920 jobs were added to the machinery industry's payroll, largely because of Hewlett-Packard Co.'s Corvallis division, according to Jeff Hannum, a state labor economist.

But only a rebound in lumber can restore general prosperity, and that will require a large decline in interest rates and a pickup in housing construction. "I'm very pessimistic at this point," Mr. Stevenson says. "I don't think we're going to see enough change to have any significant effect on the local economy before summer-spring 1984."

pro west
progressive west inc.
REAL ESTATE 1150 Crater Lake Ave • Medford, Oregon 97501 • (503) 773-8868

Average Monthly Expense without debt service	$ 14,500
Average sale closing 1982 in Pro West=	74,600
Average sale closing 1981 in Pro West=	67,300
Pro West Average Listing 1/1/82	77,500
Pro West actual average company dollars on front office=	45%

Average company net transaction 81=$909
Average company net transaction 82=$1007

Transactions needed to close in front office monthly to break even without debt service based on 82 average closing =15 , based on 81 average closings=16

One transaction equals either a sale or a listing sold. If Pro West sells a Pro West listing it is two transactions.

Company dollar is portion company nets after commissions paid.

In order to net 15-16 transaction closings approximately 20 transactions need to be signed two sides in front office each month.
we are averaging 15.5/mo closing in 82
Currently we have 20 front office sales associates. Requirement to break even without debt service is 1 transaction signed two sides per associate.

The ratio of closed transactions to number of front office sales associates has been met or exceed by this firm in the months of July, August, September, and October of 1981.

In order for Pro West to break even without debt service, the monthly volume of closings of the MLS would have to be $6,000,000. This is based on the assumption that Pro West has an 13% market share of closings (actual-January & February). The front office is responsible for 70% of those closings or 9.1% market share.

The average monthly closings in January-February 1982 were $4,400,000.

4 weeks closings ending 2/1/80	$10,503,750	avg. price $60,000
4 weeks closings ending 1/30/81	6,700,000	
4 weeks closings ending 7/25/81	5,100,000	
" " 7/30/82	3,996,000	av. price 62,700

[illegible]

10% of Homes on MKT Are Selling

UNIVERSITY OF OREGON

Diane Davidson
1400 Antelope Road
White City, OR 97501

Dear Diane:

Rather than relating several issues relevant to our local economy, I have enclosed newspaper articles, from a variety of sources, which have bearing upon your report. Basically, they all offer a common theme: our narrow dependence upon the wood products industry has placed us in the most depressed condition in our history.

Because of the attractiveness of our local community, our Eugene-Springfield community grew in population by over 30% during the 1970s. Unfortunately, most of this growth was accomodated by the service industries, which live or die as a result of the health of the local wood products companies. We did not, for instance, have any manufacturing firm locate in Eugene-Springfield during the 1970s which employed more than 50 people. Therefore, now that wood products is depressed locally, the impact is compounded because of the spin-off depressing effect a down-turn in wood products has on the service and retailing firms within our community.

My own best estimate is that we will not arise from our current depressed state (without outside help) until late in the present decade. Our only way out without help is to diversify our local economy, an activity which requires several years to produce noticable results in the local community.

I hope that the enclosed articles and my comments are of assistance.

Sincerely,

Jim Reinmuth

James E. Reinmuth
Dean

OFFICE OF THE DEAN • COLLEGE OF BUSINESS ADMINISTRATION • EUGENE, OR 97403-1208 • TELEPHONE (503) 686-3300
[illegible]

PACIFIC POWER & LIGHT COMPANY
P. O. BOX 1148
MEDFORD, OREGON 97501

August 12, 1982

Big Bear Shopper
Mrs. Diane Davidson
2400 Antelope Road
White City, OR 97507

Re: Southwest Oregon Economic Condition

Dear Mrs. Davidson:

As you surmised, Pacific Power & Light Company's Medford District has not gone unscathed by the economic downturn in southwest Oregon. The most obvious effects have been the following:

1. Commercial/industrial kilowatt hour sales - down 35 million KWH or 16% from the previous 12 months (through June). 1,375 lumber workers have been layed off during the first half of 1982.

2. New residential living units connected - down 68% for the first six months of 1982 compared to the same period in 1981.

3. Number of residential customers - down from 41,545 in 1981 to 41,431 in 1982 (June 30, 1982).

4. Delinquent accounts - I do not have statistics for you on this but there is no doubt that many customers have experienced difficulty keeping their electric bills current. Our credit department has been busy assisting with arrangements for cleaning up back bills. Part of the increased workload, though, is due to changes in collection procedures creating an additional number of extended payment agreements.

5. New subdivisions - seven are in development stages with a total of 380 lots. An additional seventeen with 1,126 lots are pending. Economic conditions have caused some developers to delay or postpone completion schedules.

6. New industrial/commercial loads - FredMeyer Shopping Center opened in July as scheduled. The proposed Medford mall, however, has changed their estimated completion date from spring of 1983 to spring of 1984 and one of their major tenants, Sears, has withdrawn from the project.

In summary, 1982 has, so far, been a difficult year for Pacific and its customers in southwest Oregon. We hope to see improvement in 1983 but the crystal ball is foggy. Please let me know if I can be of further assistance.

Sincerely,

[illegible] Manager
Energy [illegible] Conservation Services
Medford District

[illegible]

STATEMENT OF JAMES F. STOCK, SWEET HOME, OREG.

Mr. **Stock**. We have spent untold hours, all of us telling our story and I represent another one of those family-owned lumber companies. I'm second generation, with the third coming on. My family assets are totally committed to the industry, it's what we know how to do.

I was very appreciative of you taking the time to come and visit our facility and give some affirmation to our employees that you're involved, and encouragement to my mother and father.

We, as many others, are dependent upon the Department of Agriculture for timber. A lot of our concern has to do with the communities of Sweet Home and Lakeview where our plants are located. I believe that most of the people testifying today have been able to transcend, at least part of the time, more than their own best interests. We're concerned about our neighbors. The children of the people who work for us, the friends of my children, the school they go to. It's a tragedy when a plant that is not a thousand yards from my house, employs 140 people, is closed down. And those are the people that I worship with and play with, and they don't know where they're going to get the money to eat. They're people that have a deep feeling of desperation. They don't know where to turn. And I realize it's not much easier for you to try to make a decision either, but I thank you for your encouragement.

The other concern I'd like to touch on very briefly is independent companies also involved in a relationship with the financial liaison between the Government and ourselves, the bonding companies. And they're just a little bit concerned themselves, worried about defaults and bankruptcies. Pretty soon there won't be bonding companies to be that liaison, and when that happens, when they try to demand cash, if they take our cash flow most of us will be broke.

I thank you for your encouragement and your sticking with us through this issue.

Senator **Hatfield**. Thank you, and warm regards to your family.

[The prepared statement of Mr. Stock follows:]

Statement of James F. Stock

Mr. Chairman, and members of the Committee, my name is James Stock. My family owns sawmills in Sweet Home and Lakeview, Oregon. We are a very small company with less than 100 employees at both locations. My mother and father founded our company following World War II and have struggled together for over 35 years to keep people working. There have been good times and bad times but these businesses have provided a meaningful life for ourselves and our employees. Now a second generation manages these companies with a third generation well on the way. Second generation employees are taking the places of their retiring fathers. We share together with our employees in a continuity that facilitates a stable community.

We purchase timber exclusively from the Department of Agriculture-Forest Service. Some of these logs we purchase in timber sales and log ourselves; others we acquire in trades with other companies in order to best utilize the cutting capabilities of our sawmills. Our sawmills are both "cutting mills", meaning we cut mostly specialized products for the industrial market as oppossed to dimensional lumber for housing.

The two Oregon communities where our sawmills are located are both timber dependent communities. Without the wood products industry these communities would lose their economic base. Our major concern in the matter before us relates to the survival of these communities. I am taking about my neighbors, the parents of the children my children go to school with everyday. Already one timber company with over 140 employees has closed its doors this year and put those families out of work.

Another major concern for our company, and others like us, is our emerging precarious position with the bonding companies. As this economic crisis in the wood products industry continues, all companies with large volumes of expensive timber under contract continue to be an even greater liability to them. When the Forest Service sells timber the buyer is required to arrange a performance bond prior to the letting of the contract as a guaranty that the buyer will remove the timber as agreed upon. Also, as we remove the timber it is further covered with a payment bond which guarantees we will pay our monthly timber bill. The present volume under contract is so expensive it will never be removed and many companies are facing contract default and bankruptcy. The massive liability facing bonding companies has them seriously disturbed. It is becoming increasingly difficult to obtain bonding. The only alternative to bonding, if we are to operate, is cash. There is no way we could possibly continue to stay in business if we were to tie up huge sums of working capital in security agreements with the United States Government. It is obvious the bonding companies will then only do business with the large publicly held companies, forcing people like ourselves into extinction. My family, and others like us, have continued to express our committment to our communities and our industry by committing our asset base to the building of new modern manufacturing facilities that enable us to improve our product and stay active in the market place. Just this past year my family invested several million dollars in a new mill for the generation to come. All through this economic recession we have kept our plants operating and our people working, despite the fact we are losing money and paying huge interest bills. The only possible light at the end of the tunnel in these times is a less expensive timber base. We are committed to operate and deplete our assets as long as it is possible.

This past year I have spent many, many hours in meetings with other representatives of this industry, struggling to develop a concensus on how we can get ourselves out of this very serious predicament so that we can save an industry as well as the many supporting communities that are dependent upon our being a stable industry. Companies of all sizes shared in this together. I was proud of the ethical sensitivity of the industry, the willingnes of men to work toward a higher good than just their own vested interest. It was not an easy process. There was a lot of intense anger, frustration and hostility. These good men stayed with the process until we worked out a compromise no one really liked in many ways, but one we could live with. By mid-July the industry, by and large, had agreed upon this proposed legislation. As of this moment the legislation generated out of this painstaking, patient process has not yet been introduced. This bill is a true compromise, as stated earlier. No isolated segment of the industry is totally happy with the bill, but we all believe we can abide by it and survive.

I realize the great difficulty of convincing this committee in a few short hours what took us a year of painful processing to arrive at. We are not asking for a "free ride" or a bail out. The timber industry is not totally responsible for the economic recession that makes it impossible for American families to build houses or buy cars, or for the high unemployment rate. The conditions under which we committed ourselves to these contracts no longer exist. We need a fresh start, a renegotiated agreement with the seller of these goods, the United States Government. If this can not be arranged there will be untold casualties in our industry, very few survivors, very few customers to purchase the resource you plan to sell the next couple hundred years and beyond. I plead with you to give careful consideration to our proposal.

STATEMENT OF C. DONALD FISHER, VICE PRESIDENT, TIMBER, BOHEMIA INC., EUGENE, OREG.

Mr. **Fisher**. I will eliminate part of my written report.

I'm Don Fisher, vice president for timber for Bohemia, Inc. Bohemia was a family corporation up until about 15 years ago when the family decided to go public, and we're now a publicly owned corporation.

As you know in Oregon the Federal Government owns 52 percent of the surface area, and that ranks Oregon among one of the top federally owned States in the Nation. The effect of any Federal action, including those taken by the Forest Service and BLM, causes violent tremors in Oregon's economy. Thus any action or inaction by the Forest Service and the BLM is the deciding factor in our economy.

In addition, Oregon by law must have a balanced budget. Our legislature has already had two special sessions and will likely have another to further reduce the State budget.

Eugene, the second largest city in Oregon, is located at the southern end of the 100-mile long Willamette Valley, bordered on the west by the coast range and on the east by the Cascade Mountains. Eugene was voted the most liveable city for its size class about 5 years ago. Today Eugene would not be in the running regardless of its new performing arts center, new Hilton Hotel and convention facilities, and downtown renewal project. Eugene's population has dropped from 110,000 to somewhere below 100,000. Almost every block in Eugene and surrounding small towns has one to five houses for sale, for rent or a sign saying simply "take over my existing mortgage." Lane County, where Bohemia is mainly located, has 11.6-percent unemployment. Our neighbor county, Douglas, where Roseburg is located, has 20-percent unemployment.

The same general conditions apply in the small communities of Culp Creek, Saginaw, Lakeside, Coburg, Brownsville, all in Oregon, Grass Valley and Lincoln, Calif., where our plants are located. As a result of all this, a large portion of the local property tax payments are late or in default. Our local Eugene School District 4J just got word they will be $2 million short in their budget due to late and delinquent property tax payments. Lane County government is in a similar situation with employee reductions and is almost closed down each Friday to conserve salaries. The fabric of Oregon's social order is being torn asunder by the reduced or inoperable status of our wood products industry. That is the dismal situation today in Oregon.

A few facts about Bohemia will demonstrate why I am here today. Bohemia is an integrated wood products producer of lumber, plywood, particleboard, laminated beams in our Oregon operation. Our log usage in Oregon in normal times is approximately 200 million feet yearly and 85 percent of it is purchased from the Forest Service and Bureau of Land Management in western Oregon. We have a small log mill at Lincoln, Calif., and a large old growth pine and white fir mill at Grass Valley, Calif., about halfway between Sacramento and Donner Pass in the Sierra Cascades. We employ 2,000 plus workers, loggers and contract loggers at full wood products operations, which has not been the situation for almost 1 year. We are not a small business. Nor are we large business in the sense of national and international producers. All of our plants are located in small communities adjacent to national forest and BLM lands and are usually the major source of support in those communities. These small communities are the sinews that bind our social order in Oregon and are the ones being crippled by the present timber situation.

I have several questions to answer briefly. How and why did we get into this disaster area? What do we do about it? What happens if relief is not granted?

First, how and why did we get here. Bohemia, along with the others appearing here are 85 to 100 percent dependent on public timber. We were the victim of inflation and the rosy economic forecasts for the eighties as were many others. With our $100 million investment in plants we endeavored to maintain a 2- to 3-year supply of timber ahead for rational planning purposes. To do this, we and others were forced to compete against fast buck speculators with no plant facilities who were looking for what appeared to them to be a pot of gold at the end of the rainbow. Add to that the possible reduction in timber supply by RARE I and RARE II actions and timber partnerships, and incidentally the timber partnership is a dead issue because of the IRS ruling.

Last but not least was the fact that almost anyone could walk in off the street and qualify to bid on a multimillion dollar Federal timber sale contract. With these conditions you have the recipe for the acute financial situation facing Bohemia and other companies, the counties, cities, and Oregon.

What do we do about it? I am here to ask for immediate relief in the form of termination of at least 40 percent and extension of nonterminating existing contracts that were bid prior to January 1, 1982. Bohemia is currently operating at 70 to 80 percent of capacity, in one of the lowest wood products markets we have ever experienced. We are fast running out of economically operable raw material while having a large inventory of timber priced too high to economically harvest and process.

We have been informed by the Forest Service recently that contracts will begin to expire September 1982, and reach large volume figures in December and early in 1983. The stage is set for massive defaults late this year and in succeeding years, as certain contract procedures must be taken by the Forest Service that are irrevocable. We must not delay. This makes it imperative that legislative action be taken soon to avoid these massive defaults on Forest Service and BLM timber sale contracts.

Employees, schools, counties, and the State lose by having billions of feet of timber and millions of dollars tied up in the courts to determine damages which in many instances will never be collected due to the inability of the defaulter to pay.

The cleanest, quickest, and most equitable solution to the forest industry politically induced problems is termination and resale of the contracts at a lower price, contract term adjustments of up to 5 years on the nonterminated contracts. CTA's would permit the contract holders to feed in the extended timber sales with lower priced currently purchased timber for an orderly liquidation.

Third, what happens if relief is not granted? First, there will be massive defaults and I'm talking in billions of board feet. Forest Service figures for the west side of R-6, Oregon and Washington, show approximately 11 billion feet of timber under contract at rates of $25 to $250 above a break-even value.

Due to drastically reduced timber harvesting the counties and schools' income from timber—50 percent from the BLM and 25 percent from the Forest Service—is down to 40 percent of several years ago. Without relief that percentage could drop even lower due to decreased harvesting by bankrupt companies simply liquidating. Just imagine if a major segment of your income was cut 60 percent. The State of Oregon budget has been cut twice in special sessions and it looks currently as if another large cut will be necessary. University budgets are being slashed unmercifully. Another State budget cut due to lower tax income will probably result in the elimination of a major school at both Oregon State and the University of Oregon in Eugene. That is unacceptable. To attract and maintain industry first rate educational facilities must be available. Both of our State institutions are losing topflight personnel due to budget cuts. This cannot be permitted to continue if we are to maintain an attractive educational industrial environment.

Bohemia patronizes many small suppliers. It is these independent small suppliers that are falling by the wayside in ever increasing numbers along with their thousands of employees. This situation should not be permitted to continue. We feel that by only these one-time emergency measures can the wood products industry, our employees, the schools, cities, and the State of Oregon maintain the economy and livability that has been Oregon.

I will try to answer any questions you have.

Senator **Hatfield**. You've been a very excellent panel, too.

[The prepared statement of Mr. Fisher follows:]

Statement of C. Donald Fisher

I am Don Fisher, Vice President, Timber for Bohemia Inc., with corporate offices in Eugene, Oregon. Thank you for the opportunity to appear.

The issue before you has no clear answer, but indications based on my 30 plus years of experience with the Forest Service, Internal Revenue Service, and in private industry show it to be very close to a life or death issue for many independents in the wood products industry, including Bohemia. The impact on cities, counties and schools is almost unimaginable.

In Oregon the federal government owns 52 percent of the surface area, ranking among the top in the nation. The effect of any federal action, including those taken by the Forest Service and BLM, causes violent tremors in Oregon's economy. Thus any action or inaction by the Forest Service and the BLM is the deciding factor in our economy.

In addition, Oregon by law must have a balanced budget. Our legislature has already had two special sessions and will likely have another to further reduce the state budget.

Eugene, the second largest city in Oregon, is located at the southern end of the 100-mile long Willamette Valley, bordered on the west by the coast range and on the east by the Cascade Mountains. Eugene was voted the most liveable city for its size class about five years ago. Today Eugene would not be in the running regardless of it new Performing Arts Center, new Hilton Hotel and convention facilities, and downtown renewal project. Eugene's population has dropped from 110,000 to somewhere below 100,000. Almost every block in Eugene and surrounding small towns has 1-5 houses for sale, for rent or a sign saying simply "take over my existing mortgage." Lane County, where Bohemia is mainly located, has 11.6 percent unemployment. Our neighbor county, Douglas where Roseburg is located has 20 percent unemployment. The same general conditions apply in the small communities of Culp Creek, Saginaw, Lakeside, Coburg, Brownsville, all in Oregon, Grass Valley and Lincoln, California where our plants are located. As a result of all this, a large portion of the local property tax payments are late or in default. Our local Eugene School District 4J just got word they will be $2,000,000 short in their budget due to late and delinquent property tax payments. Lane County government is in a similar situation with employee reductions and is almost closed down each Friday to conserve salaries. The fabric of Oregon's social order is being torn asunder by the reduced or inoperable status of our wood products industry. That is the dismal situation today in Oregon.

A few facts about Bohemia will demonstrate why I am here today. Bohemia is an integrated wood products producer of lumber, plywood, particleboard, laminated beams in our Oregon operation. Our log usage in Oregon in normal times is approximately 200MM' yearly and 85 percent of it is purchased from the Forest Service and Bureau of Land Management in western Oregon. We have a small log mill at Lincoln, California and a large old growth pine and white fir mill at Grass Valley, California, about halfway between Sacramento and Donner Pass in the Sierra Cascades.

We employ 2,000 plus workers, loggers and contract loggers at full wood products operations, which has not been the situation for almost a year. We are not a small business. Nor are we large business in the sense of national and international producers. All of our plants are located in small communities adjacent to national forest and BLM lands and are usually the major source of support in those communities. These small communities are the sinews that bind our social order in Oregon and are the ones being crippled by the present timber situation.

I have several questions to answer briefly: 1. How and why did we get into this disaster area? 2. What do we do about it? 3. What happens if relief is not granted?

First, how and why did we get here. Bohemia, along with the others appearing here are 85 to 100 percent dependent on public timber. We were the victim of inflation and the rosy economic forecasts for the 80's as were many others. With our $100 MM investment in plants we endeavored to maintain a 2-3 year supply of timber ahead for rational planning purposes. To do this, we and others we were forced to compete against fast buck speculators with no plant facilities who were looking for what appeared to them to be a pot of gold at the end of the rainbow. Add to that the possible reduction in timber supply by RARE I and RARE II actions and timber partnerships (the latter now a dead issue by an IRS ruling). Last but not least was the fact that almost anyone could walk in off the street and qualify to bid on multi-million dollar federal timber sale contracts. With these conditions you have the recipe for the acute financial situation facing Bohemia, and other companies, the counties, cities and Oregon.

What do we do about it? I am here to ask for immediate relief in the form of termination of at least 40 percent and extension of non-terminated existing contracts that were bid prior to January, 1, 1982. Bohemia is currently operating at 70-80 percent of capacity, in one of the lowest wood products markets we have ever experienced. We are fast running out of economically operable raw material while having a large inventory of timber priced too high to economically harvest and process.

You have heard or will hear all the technicalities of price rollback, termination, contract term adjustment and purchaser credit. There is no need to repeat those. We have been informed by the Forest Service that contracts will begin to expire in September 1982 and reach large volume figures in December and early 1983. The stage is set for massive defaults late this year and in succeding years, as certain contract procedures must be taken by the Forest Service that are irrevocable. We must not delay. This makes it imperative that legislative action be taken soon to avoid these massive defaults on Forest Service and BLM timber sale contracts. No one gains and everyone loses by defaults. Employees, schools, counties and the state lose by having billions of feet of timber and millions of dollars tied up in the courts to determine damages which in many instances will never be collected due to the inability of the defaulter to pay.

The cleanest, quickest and most equitable solution to the forest industry politically induced problems is termination and resale of the contracts at a lower price, contract term adjustments of up to 5 years on the non terminated contracts. CTA's would permit the contract holders to feed in the extended timber sales with lower priced currently purchased timber for an orderly liquidation. In the last 5 years, wood products from Canada have taken over 30+ percent of our domestic market. The market is there, we just have to be able to meet the foreign government subsidized prices for our products. Monies would then naturally flow to the counties, schools and the State.

Third, what happens if relief is not granted?

First, there will be massive defaults and I'm talking in billions of board feet. Forest Service figures for the west side of R-6 (Oregon and Washington) show approximately 11 billion feet of timber under contract at rates of $25 to $250 above a breakeven value.

Due to drastically reduced timber harvesting the counties and schools' income from timber (50 percent from the BLM and 25 percent from the Forest Service) is down to 40 percent of several years ago. Without relief that percentage could drop even lower due to decreased harvesting by bankrupt companies simply liquidating. Just imagine if a major segment of your income was cut 60 percent. The State of Oregon budget has been cut twice in special sessions and it looks currently as if another large cut will be necessary. University budgets are being slashed unmercifully. Another state budget cut due to lower tax income will probably result in the elimination of a major school at both Oregon State and the University of Oregon in Eugene. That is unacceptable. To attract and maintain industry first rate educational facilities must be available. Both of our state institutions are losing top flight personnel due to budget cuts. This cannot be permitted to continue if we are to maintain an attractive educational industrial environment.

We cannot accept more unemployment and shutdowns. Many employees have or will shortly run out of unemployment benefits. No one knows how many families are currently without any income whatsoever.

Bohemia patronizes many small suppliers. It is these independent small suppliers that are falling by the wayside in ever increasing numbers along with their thousands of employees. This situation should not be permitted to continue. We feel that only by these one time emergency measures can the wood products industry, our employees, the schools, cities and the State of Oregon maintain the economy and liveability that has been Oregon.

I will try to answer any questions you have.

Senator HATFIELD. I want to comment that in this panel we have a nonindustry witness, Mrs. Davidson. We're very happy to have you here today, and I think you illustrate the devastating impact of this problem far beyond industry itself, what it has as a relationship to the lives of many people, all the people in the communities. The small businesses that you represent.

Mrs. Davidson, I would say I think too, that economic recovery is the key, and many of the policies that we have enacted and changes that we've made in the budgetary spending programs of the Federal Government are apparently having some effect at this point with the inflation problem we have, at a double digit at one time and now it's down to a very low figure. And the drop in the last week or two of the prime interest rates, it's in a good direction. We're certainly not at a level yet to really bring forth the recovery that we wish, but I would only point out the uniqueness of the timber industry has to have some bridge action now. We're not in a position to wait for the overall economic recovery, because as you know, ours is usually, the timber industry is usually the first to feel the recession and usually the last out. So even if recovery were upon us now on the full press court action, it would not yet impact upon the timber industry, the timber economy. So I appreciate very much your testimony.

Mr. Stock, you certainly epitomize the plight of you all. I feel very deeply of the role of that entrepreneur and your class of entrepreneurship in the future. It appears that all the forces are working against you. We have seen how this entrepreneur in many other instances have been squeezed out, and to me that is the heart of our whole economic system, is the defusion of economic power rather than concentration.

Your survival is something more than just the importance to the Stock family. Your survival is more important even than to the employees that depend upon your company for employment and their livehlihood. You, in effect, symbolize the future of the whole economic system of this country. If we're going to have a diversive economic system or whether we're going to have a few large corporate giants that dominate and play cannibalism and all the other things that happen when we get into this kind of economic centralization.

Mr. Fisher, you certainly brought forth the impact upon the other capital resources of any area, the educational resources. It's not just the loss of the timber industry and the timber employment as you have carefully pointed out, the State will be forced to sell off its capital investments in effect, by restricting and reducing the educational opportunities. That is the economic future of our State, as they've brought forth the economic success in the past and I'm very much aware of that.

Mr. Saltman, I wonder if you would be willing to comment on one paragraph in Mr. Jones' testimony relating to the cost of relief. I'd like to quote from Mr. Jones because I think he points up again what I said in some of my more biting remarks in the opening of this hearing. I quote from his page 10 of the testimony.

> By calculating the total current contract values of sales which would be terminated, less the total actual value that would be obtained from resale, a figure can and has been determined. However, whether this figure is anywhere near the actual amount of foregone receipts is dependent on one very salient factor, could the Federal Government recoup this amount of money from purchasers if no relief were granted? The answer to that question is, in my opinion, clearly no.

Even as elemental, I think, as this may appear to those that have some comprehension, and yet there are those that would lead us to believe otherwise. Somehow that there is in this a net loss to the Federal Government that cannot be offset in any way or would be that loss or gain regardless of what kind of legislation or change the policy would bring. Would you care to elaborate?

Mr. Saltman. If no relief is granted we're heading for a situation of massive defaults. If that occurs, the only way that the Federal Treasury is going to receive receipts from these timber sales is through the collection of damages and resales. I think everyone recognizes that resales will be at very low levels, therefore the amount of damages will be substantial. However, damages in the abstract are of no utility unless they are collectable.

We're talking about a situation where the Forest Service recognizes assurities are liable for only a fraction of these potential damages. The rest will have to come from the assets of these defaulting companies. However, by the time litigation is over, several years from now, on these defaults, there will be very little unencumbered assets if anything remaining. The banks will have come in and taken their security interest in the plant equipment. Other creditors will have taken their share. The Government will be nothing more than an unsecured creditor to share what few tidbits of assets remain. The Government will reap no windfall from this litigation except to drive these companies out and add to the human misery in doing so.

Senator Hatfield. Thank you Mr. Saltman. Under those circumstances even the lawyers might not come out. [Laughter]

Mr. Saltman. For some reason whenever I get to testify like this there is always that illusion comeback. I will say to you, it's not the way we want to earn our money.

Senator Hatfield. I can appreciate that. Thank you very much. Thank all of you.

The next panel, Mr. Art Adams, Mr. Michael Burrill, and Mr. Arnold Ewing.

STATEMENT OF ART ADAMS, PRESIDENT, NORDIC PLYWOOD, INC., ROSEBURG, OREG.

Mr. Adams. My name is Art Adams. I'm president of Nordic Plywood, Inc., located in Roseburg, Oreg. Before my remarks to this committee I'd like to personally thank you, Senator, for your support of the timber industry and your efforts to draft and work through legislation for timber contracts.

Senator, with this testimony I will try to create a picture for you of a small, family owned, veneer plant operation, located in Roseburg, Oreg.

Nordic Plywood is a second generation family owned business, owned and operated by my brother and myself. The company was founded in 1954 by my father, Dick Adams, and it has operated continuously for 28 years under the corporate name of Nordic Plywood.

The plant is a veneer peeling facility consisting of 8-foot and 4-foot lathes, producing primarily green Douglas fir veneer used in the production of softwood plywood. We employ approximately 75 people.

This industry is fiercly competitive, and to compete takes know-how and hard work. At Nordic Plywood we have an excellent plant and operation, and one which we feel is respected by other companies in our industry.

Our log useage requirements range from 20 to 24 million board feet of logs annually. Of that volume, 90 percent comes from federally owned lands, and the remainder coming from private timberland owners. Presently our company has 56.4 million board feet of both BLM and Forest Service timber under contract. This amount represents less than 3 years log useage requirements for our company.

You should know that for the past 2½ years the wood products industry has really struggled. For the last year or so it has been almost totally paralyzed. From August 1981 to July 1982, the operating losses of our company have been in the high six figures. We have met our Government timber contracts but suffering huge financial losses during a continuing plunging product market. In November 1981 our employees agreed to and accepted a 20-percent wage reduction in order to try to lower operating losses and to continue operations.

By June 30, 1982, our plant ceased operations indefinitely. At the end of this current month my brother and myself will be the only people on our payroll. Our future is very clouded, and we have no solid plan of reopening. We do not have one timber sale we can operate now, or in the foreseeable future. If we did have a log at an inpond cost to allow us to operate, the extreme softness of our markets continues to create new lows in price almost weekly.

What are the solutions for our industry? Fact: Today it's safe to say that anyone having Government timber sales under contract and required to harvest the timber in subsequent months, probably has or will have a substantial contingent liability attached to their balance sheet. This so-called contingent liability is going to eventually turn into an operating loss unless something is done to preclude that loss. To preclude that loss can only occur if markets for our products will allow conversion of the log at contract price or the contracted agreement is void. Extensions of contracts do not eliminate contingent liabilities. This industry, and my company, must have contract termination, not contract extensions.

What lies ahead for my company and our industry? As a businessman when I look back over the past 2 years, many things trouble me. High interest rates that have literally paralyzed the wood products industry and many others. Restrictive timber management policies that do such a poor job in the total management of our forests. And of course the human suffering that goes with being unemployed and all the personal problems that go with the unemployed.

But I guess what lies ahead is the question I'm most concerned about. What is the future of Nordic Plywood? Without knowing the future, every business decision we have made we felt we made with good judgment. We have spent almost three decades as a family in this industry along with all our employees plus all the other companies and people we work with, working hard to make a better plant by reinvesting capital to develop new production and management techniques in order to make us a good, solid, viable business. Today our future has a large cloud overhead. We have timber sales with $400 per thousand board feet for stumpage costs, and markets that will barely support a $50 to $100 per thousand board foot stumpage cost.

What good are extensions? You cannot have a policy of extensions and still properly manage and develop our forests, or be of service to the industry and the people it supports, and from such a policy solve our problems. The cloud over our industry must be at least partially removed by complete contract termination.

Senator **Hatfield**. Thank you very much.

STATEMENT OF MICHAEL E. BURRILL, PRESIDENT, EUGENE F. BURRILL LUMBER CO., MEDFORD, OREG.

Mr. **Burrill**. My name is Michael Burrill, I'm President of Eugene F. Burrill Lumber Co. in Medford. I want to thank you, as have the others, for your concern for our industry, and take the time that you have to try to find a solution. I'm going to attempt to vary slightly from my testimony that I presented and just highlight on the facts.

I hope that you're quite impressed with the fact that many of the people in our industry are second and third generation lumber people. Myself, I'm second generation, I have three sons that are young and they're looking forward to joining the company. My father started our company back about 40 years ago and we've grown from nothing to where we are today. We survive 100 percent on purchases of Federal timber. We currently have in the neighborhood of 110 million feet of timber under contract purchased prior to 1982. Of that 110 million, it's made up of about 17 individual sales contracts and all but 3 of those will be expired by the end of 1983.

Our company uses about 30 million board feet of timber per year and we have between 3 and 4 years of normal production to consume.

I think we need to look at the potential as we look ahead. If the contracts are nonprofitable at this time and we look ahead, then we ought to realize that our logging costs to remove them from the woods is going to escalate along with inflation. Our cost of producing the product through our sawmills is also going to be increasing.

So if we plug interest on top of that for the stumpage there is no way that we could ever catch up.

The next thing I would like to talk about is the decisionmaking process that we might be going through. Any time we have a problem like that we have to start at some point making decisions, and the first one has to be made here in Washington by the Congress. This is done in one of two ways. One would be that we be granted some type of relief. The second would be we would be granted no relief at all. Once the decisions are made we have to recognize the consequences of those decisions. If we do not get relief, as the other people have testified, the only option we have is to default. If we do get relief we have an orderly solution to the problem that can be addressed in a way that we can all, in all parts of the country, survive and come through with minimal effect.

Going back to what might happen, if you have no relief at all then the next level of decision comes down to us as operators, and we would at that point have to decide do we operate the sale or do we default? The biggest part of us would choose the default side because the risk might be a little less there. If we tried to operate the sales there is no doubt the impact is greater than anything we could absorb. The potential liability from operating the timber sales could run in excess of two times the net worth of the company and there's just no way that we could operate it.

If we go into default then we have to look at the potential problems we might have for the industry. Many of them have been expressed already. The problem is that the timber would have to be put back on the market immediately and resold, which puts us into a problem 3 or 4 years down the line. It creates a problem with our friends in the South and other places, where it would further depress lumber prices. The bonding that Mr. Stock mentioned is a very serious problem. Even for those companies that may not have a problem on timber sales currently, would suffer greatly because of a lack of money and they lose millions and millions of dollars. This is a very real possibility.

In summary, the answer in my opinion is termination or a combination of termination with some extension. Termination is a very important part of it.

I forgot to mention at the beginning that I also represent the Northwest Timber Association. I'm the president of that association, and that association is made up of between 30 and 40 small independent operators located along the west side of Oregon, southwestern Washington.

The problems that I've expressed and outlined this morning I'd like for you to consider those 30 to 40 times over, because those are the problems that all of us are having.

Thank you.

[The prepared statement of Mr. Burrill follows:]

STATEMENT OF MICHAEL E. BURRILL

INTRODUCTION

Mr. Chairman and Members of the Committee: My name is Michael Burrill, President of Eugene F. Burrill Lumber Co. in Medford, Oreg. I am also currently the President of the Northwest Timber Assn., a trade association of independent lumber and plywood manufacturers in Western Oregon and Southwestern Washington.

I will speak in both capacities today.

EFBLC is a small business, family owned sawmill specializing in high quality 2x4 studs for the homebuilding industry. My father started the company 40 years ago this September and we have been continually modernizing until we believe we have one of the most efficient and up-to-date mills in the business. We purchase timber from the Medford District, BLM; Rogue River Nat'l Forest & Winema National Forest in Southern Oregon and the Klamath Nat'l Forest in Northern California. We operate in a fairly broad geographical area because of the need to select those limited number of sales that fit our specially designed operation. Our white fir studs require a certain type of log.

To keep our mill operating, we must be highly competitive in our bidding, trade logs with other mills and maintain a large inventory. We do not own private timberlands for an alternate source of supply. Just to stay in business these last few years, we had to purchase timber at price levels that are no longer economically viable. In this respect, we are no different than the other 30-40 members of NWTA. It is an economic fact of life, that if you are a wood using industry and you don't have your own timber, you have to buy it. If you were successful at buying in the past 2-3 years, by today's standards you paid too much. If you felt at least 2 years volume under contract was prudent, you paid way too much. No timber sales we have under contract, other than those purchased this year, even approach the breakeven point.

We currently have about 110 million board feet of timber under contract that was purchased prior to 1982 with all of it unprofitable at todays markets. The original contracts on all but 3 of the 17 sales under contract terminate in 1983. Our company uses about 30 million board feet of timber per year so you can see that the volume under contract would take between 3 and 4 years of normal production to consume. Our industry has been in a deepening recession for 3 years now with no relief in sight. All of these sales were purchased within a logging plan whereby they would have been operated in an orderly fashion. As the recession continued and deepened, even sales currently being purchased in many cases turn from a good sale to a bad sale within 3 to 4 months. Our current delivered log price is currently about 50 percent of what it was in 1980. Even with these lower priced logs, we find the finished product prices continuing to slip at an even faster pace. The current potential liability on these sales, if we attempted to process the logs or if we defaulted and the sales were resold, would in many cases be in excess of 2 times the total net worth of the company.

To extend the contracts will not make them less expensive and with escalating logging and production costs, it would take years to reach a breakeven point and with many contracts, they would never become profitable.

Many people think that no relief should be given and we should have to honor the contracts to the letter. This problem must be viewed as a total industry problem and the inpacts of your decision must be understood.

To demand that the contracts must be honored, will bring about 2 potential results. The first being that if we assume the operator does operate the sales, he will suffer losses so great that bankruptcy will be the end result for most. The second being, that the operator will not operate the sale and thus default on the contract.

Those timber sale contracts that go into default, will carry with them some interesting consequences. The first point for consideration, is that these contracts can be tied up in the courts for a considerable length of time as the courts decide the final legality of the default procedures. The second point, is that the Federal Government, Counties, Schools, etc. will get no revenue from these sales during that period of time. The third point, is that even if financial claims are made against the purchaser, the Government will probably be able to collect only a small portion of the claim from the purchaser and will have to go against the bonding companies for the balance. The fallout from the claims against the bonding companies will be cancellation of many bonds and an unwillingness to issue bonds to any company purchasing timber sales.

In summary, the only answer is termination or a combination of termination and extensions. Without this type of relief, the only alternative is to default. Defaults are expensive. Expensive for both the government and the company defaulting. Attorneys tell us each default could take 3-5 years to settle and then probably at a fraction of the default penalty. In the meantime, timber sales are not operated, jobs are not gained, counties receive no income. All in all it's a dead loss. Termination with resale allows the timber back on the market in an orderly fashion at current market values. The only sales we can operate today are those we purchased yesterday. It is my opinion that the government would receive a net gain through termination.

This is not a bail out. It will cost the taxpayer nothing. If Congress fails to act, it will cost taxpayers in the form of unemployment, lost taxes, lost revenues from timber receipts and the need to pay voluminous attorney fees.

STATEMENT OF ARNOLD EWING, EXECUTIVE VICE PRESIDENT, NORTH WEST TIMBER ASSOCIATION, EUGENE, OREG.

Mr. EWING. Senator Hatfield, with respect to your time and your delayed luncheon, I will also skip over parts of my testimony and I ask that the total testimony be included in the record.

Senator, I sincerely thank you for your patience, and patience with our industry. I appreciate what you've done today to solve this devastating problem.

I am Arnold Ewing, executive vice president of North West Timber Association. Our membership is located in western Oregon and Washington. They are all small businesses and are nearly 100-percent dependent upon public agencies for their timber supply.

As the inflation factors rose to double-digit rates, these rates had to crank into the timber bids and compounded annually in order to buy the sale. Continued optimistic predictions by renowned economists also fed the flames of unprecedented bidding. Call it speculative bidding if you will. Most companies so heavily dependent upon the public timber considered it a matter of survival.

It became apparent some mills were in trouble. The first reaction by most people was "they bid them; let 'em eat them." That quick-fix answer was all right until we began to really examine the magnitude of the problems. It then became apparent that something had to be done to prevent a catastrophic collapse of a major source of our industry with wholesale defaults of sales, mill closures, unemployment, and collapse of county receipts.

Our approach was termination of a high percentage of the sales with immediate resale of the terminated sales hoping this would bring the bid prices in line with the current market.

It soon became apparent that this solution did not recognize the delicate balance that exists nationwide between supply and demand. Other regions immediately became concerned that this could mean an invasion by the Northwest into markets normally supplied by the South, or the Rockies. They felt that if we were relieved of our overburden we would invade their markets.

The inland empire operators were concerned with equity. Termination of deficit sales was not the solution for them. They felt that solving the ineffective purchaser credit issue on deficit sales was a reasonable solution.

The Southern Forest Products Association has a legitimate concern that large volumes of timber would be sold in the Northwest at prices that would afford the Northwest an opportunity to invade their markets. They therefore have suggested a cap. Mr. Williams said in a statement last week to the Senate Agriculture Committee they are considering an agreement which will allow the survival of the western industry if it does not unnecessarily imperil the survival of the South. This is a reasonable and justifiable concern that we recognize and will support.

We subscribe to those concerns of our industry in the South and the inland empire of the West.

We have worked diligently and with integrity to not tip the delicate scales of supply and demand nationwide at the expense of any segment of the industry. Mr. Chairman we have succeeded by a large majority in arriving at a consensus for the need for relief.

We only have minor differences, primarily a concept of a cap that was so ably presented by Mr. Harry Williams on behalf of the Southern Forest Products Association before the Forestry Subcommittee of the Senate Agriculture Committee, Thursday, August 12, 1982.

I suggest that legislation should recognize this concern. In line with the broad language concept in Senator Hatfield's bill, I would suggest the following language:

"All terminated and/or defaulted Forest Service timber contracts shall be resold in an orderly fashion and be included as a part of the normal sales program in the fiscal year in which it is offered."

The intent should be clearly spelled out in the committee report that dumping of timber in the Northwest will not be done.

Why do we in region 6 resist a specific cap as suggested by the South? It is not news that the present lumber and plywood market is terrible. It reflects a depression not a recession and no one sees any substantial change upward in the market for the next 2 years.

We in the Northwest, just to maintain our limited portion of the market, must operate on timber currently being purchased. Let's be frank. There is some 7.5 billion board feet of Forest Service timber under contract in western Oregon. Now Senator, you'll see different figures by various people. They're not in conflict. The dates that we used to arrive at these, they're all consistent.

If we terminated that portion we could still not touch those sales clear on down to 8 percent, and this was compiled last October. Of that 8 percent most of that has already been harvested just to get by, so I'd say the total volume that we have in our contract as of this date, probably 2 percent of us are able to operate in today's market.

Only 8 percent of that timber could possibly be harvested in the present and projected market for the next 2 years. The distribution of the 8 percent is not evenly divided. Many operators are in the position of having no timber under contract, except current sales, that they can operate. We must have a reasonable sales program to carefully carry the Northwest through these trying times. A lesser volume would result in panic bidding to just get timber through the mills for cash flow purposes, defeating the very concept of relief.

What happens if no relief is granted? This 92 percent will not be harvested during the next 2 years. Limited defaults will occur this fall. In 1983 and 1984, massive defaults on some 3 billion board feet are sure to happen.

I ask you to go to the other chart and come back, and I'll explain how I arrived at that. It's the next to the last chart. If you notice there I have bid prices of the stumpage that's going to expire on March 31, 1982. That has expired. We're on extensions now. We'll be paying extension deposits on those sales this fall. At that point you have to face up and bite the bullet as an operator. Do I default those sales? You can see the average price of those sales is about $380. You move over to 1983, next spring, we'll have a 1,357,000,000 that's coming up for extension. It's the same thing. We have extensions, you have to make extension deposits, interest rates, then you see it accelerate further. Every set of timber volumes are increased in every price until we get to the last one up there, 1986, over $600 cost delivered to the mill. Those should tell us that we have no alternative but to terminate a fairly large volume.

Without relief of sky rocketing markets, never before experienced, defaults will continue through 1985-86. The uncontrolled handling of this huge volume will upset national market relationships. There will be job relocation. There will be widespread mill bankruptcies in the Northwest. The counties will suffer even greater than from loss of receipts. This is not well understood, Senator, and I ask you to put this question to the Forest Service. I very carefully went to the Forest Service at the regional level first and said, when a sale is defaulted, where do the damages go? They gave me an answer that I didn't buy, and my testimony, about a year ago, I said these damages do not go to the counties for receipts. I was challenged. I came back to Washington, D.C. I asked them, to get their chief fiscal agent. He checked it through and came back to us and said Arnold, you are right. Not one dime of damages collected for default go to the counties. So the counties would not get a nickel. I don't think the counties understand that. The counties do not receive a portion of the damages assessed. Their income is only derived as a percent of timber actually harvested.

There is only one way to solve this dilemma. We know there is a strict relationship between the amount you terminate and how much time we need to meter the other back in, so 10 years would be very little, and lesser time if you terminate more volume. We need to provide equity and we need to make sure this delicate balance of nationwide markets is not overturned by dumping additional timber volume in the Northwest.

Time is of the essence. Relief is needed now, and we appreciate what you're doing now Senator, thank you.

[The prepared statement of Mr. Ewing follows:]

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STATEMENT OF
ARNOLD EWING
EXECUTIVE VICE PRESIDENT
NORTH WEST TIMBER ASSOCIATION
EUGENE, OREGON

Before the
SENATE ENERGY AND NATURAL RESOURCES COMMITTEE
SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER

August 16, 1982

I am Arnold Ewing, Executive Vice President of North West Timber Association. Our membership is located in Western Oregon and Washington. They are all small businesses and are nearly 100% dependent upon the public agencies for their timber supply. Because they must buy all of their timber in public auctions, they must maintain competitive, efficient mills. There has been a constant upgrading of these mills which reflect heavy dollar investments. With these heavy investments it is imperative that a steady source of raw material supply is purchased out ahead. A very reasonable inventory of timber is 2 to 2 1/2 years supply.

As the inflation factors rose to double digit rates, these rates had to crank into the timber bids and compounded annually in order to buy the sale. Continued optimistic predictions by renowned economists also fed the flames of unprecedented bidding. Call it speculative bidding if you will. Most companies so heavily dependent upon the public timber considered it a matter of survival. They had to crank in all of the factors that they could anticipate to develop a bid value projection to fit the anticipated market some 2 to 3 years in the future.

The bidding spiral continued to increase at uncontrollable rates. The Government as well as the purchasing mills were very concerned about the extreme overbids but solutions, at least legal ones, were not forthcoming to take the fever of bidding out of their blood. The crash was inevitable; the recession only changed the time table.

It became apparent some mills were in trouble. The first reaction by most people was "they bid them let em eat them." That quick fix answer was all right until we began to really examine the magnitude of the problems. It then became apparent that something had to be done to prevent a catastrophic collapse of a major source of our industry with wholesale defaults of sales, mill closures, unemployment, and collapse of county receipts.

In the fall of 1981, our association jointly with other Associations developed facts and met with industry groups nationwide to explain the problem. In our research, we found that legislation was passed in 1935 allowing termination of Forest Service sales with no damages. This was based upon the depression of the 30's. We decided this was a reasonable tool to use in this recession. I am aware that the Federal Government considers that nationwide we are still only in a recession. At least in our industry and the housing industry we are in a full blown depression and drastic measures need to be taken now to prevent total collapse of our economy at least in the Pacific Northwest and Northern California.

Our approach was termination of a high Percentage of the sales with immediate resale of the terminated sales hoping this would bring the bid prices in line with the current market.

It soon became apparent that this solution did not recognize the delicate balance that exists nationwide between supply and demand. Other regions immediately became concerned that this could mean an invasion by the Northwest into markets normally supplied by the South, or the Rockies. They felt that if we were relieved of our overburden we would invade their markets.

The inland empire operators were concerned with equity. Termination of deficit sales was not the solution for them. They felt that solving the ineffective purchaser credit issue on deficit sales was a reasonable solution.

The Forest Service has for years required operators to build roads on deficit sales without full reimbursement in money or in kind. In essence, the industry has been subsidizing the U.S. Government in their road construction programs in deficit sale areas.

At the present, the Forest Service fails to recognize that a road built by a timber purchaser has a permanent value over and above just the specific sale. They fail to recognize the value of that road for future sales, for future management of those lands, for future fish and game management activities, for the hunters and fisherman, for all sorts of public recreation and all of the other activities that come under the multiple use concept of managing Forest Service lands.

Making all purchaser credits effective would eliminate the subsidy some of out industry presently pays to the Federal Government. It also provides those operators a means to maintain their historic marketing patterns. All purchaser credits should be made effective on future sales.

The Southern Forest Products Association has a legitimate concern that large volumes of timber would be sold in the Northwest at prices that would afford the Northwest an opportunity to invade their markets. They therefore have suggested a cap. Mr. Williams said in a statement last week to the Senate Agriculture Committee they are considering an agreement which will allow the survival of the Western industry if it does not unnecessarily imperil the survival of the South. This is a reasonable and justifiable concern that we recognize and will support.

We subscribe to those concerns of our industry in the South and the inland empire of the West.

We have worked diligently and with integrity to not tip the delicate scales of supply and demand nationwide at the expense of any segment of the industry. Mr. Chairman we have succeeded by a large majority in arriving at a consensus for the need for relief.

We only have minor differences, primarily a concept of a cap that was so ably presented by Mr. Harry Williams on behalf of the Southern Forest Products Association before the Forestry

Subcommittee of the Senate Agriculture Committee, Thursday, August 12, 1982.

I suggest that legislation should recognize this concern. In line with the broad language concept in Senator Hatfield's bill, I would suggest the following language:

> All terminated and/or defaulted Forest Service timber contracts shall be resold in an orderly fashion and be included as a part of the normal sales program in the fiscal year in which it is offered.

The intent should be clearly spelled out in the Committee Report that dumping of timber in the Northwest will not be done.

Why do we in Region 6 resist a specific cap as suggested by the South?

It is not news that the present lumber and plywood market is terrible. It reflects a depression not a recession and no one sees any substantial change upward in the market for the next two years.

We in the Northwest, just to maintain our limited portion of the market, must operate on timber currently being purchased. Let's be frank. There is some 7.5 billion board feet of Forest Service timber under contract in Western Oregon. Only 8% of that timber could possibly be harvested in the present and projected market for the next two years.

The stumpage prices for the remaining 92% are such that there will be no harvest of the timber under present market conditions.

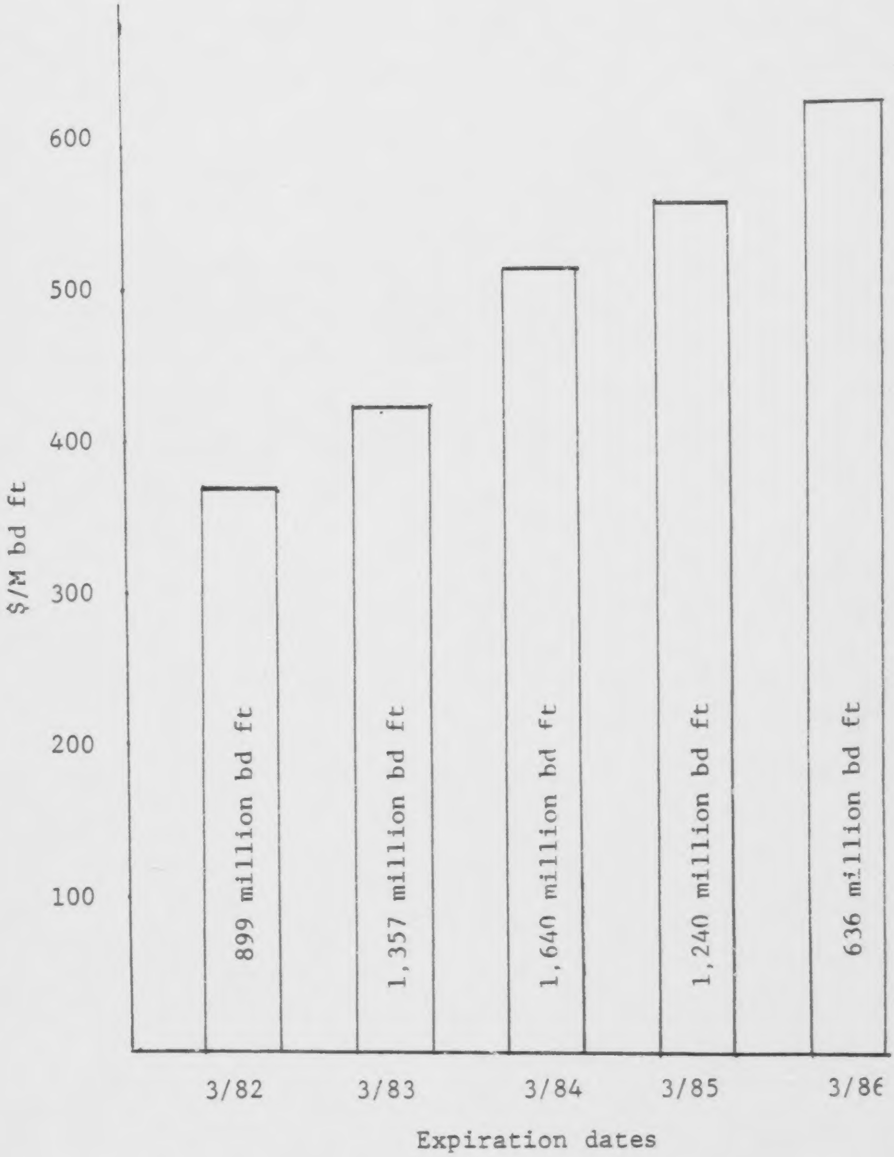
The distribution of the 8% is not evenly divided. Many operators are in the position of having no timber under contract, except current sales, that they can operate. We must have a reasonable sales program to carefully carry the Northwest through these trying times. A lesser volume would result in panic bidding to just get timber through the mills for cash flow purposes defeating the very concept of relief.

What happens if no relief is granted. This 92% will not be harvested during the next 2 years. Limited defaults will occur this fall. In 1983 and 1984, massive defaults on some 3 billion board feet are sure to happen. Without relief of sky rocketing markets, never before experienced, defaults will continue through 1985-1986. The uncontrolled handling of this huge volume will upset national market relationships. There will be job relocation. There will be widespread mill bankruptcies in the Northwest. The counties will suffer even greater than from loss of receipts. The counties do not receive a portion of the damages assessed. Their income is only derived as a percent of timber actually harvested.

There is only one way to solve this dilemma. That is legislation allowing termination, and providing time to meter the remaining overburden back into the market at some future date, provide equity by making ineffective purchaser credits effective on future sales, and making sure that the delicate balance of nationwide markets are not overturned by dumping additional timber volume in the Northwest.

Time is of the essence. Relief is needed now.

AVERAGE DELIVERED COST OF U.S.F.S.
TIMBER, WESTERN OREGON, BY
EXPIRATION DATE (No extensions considered)

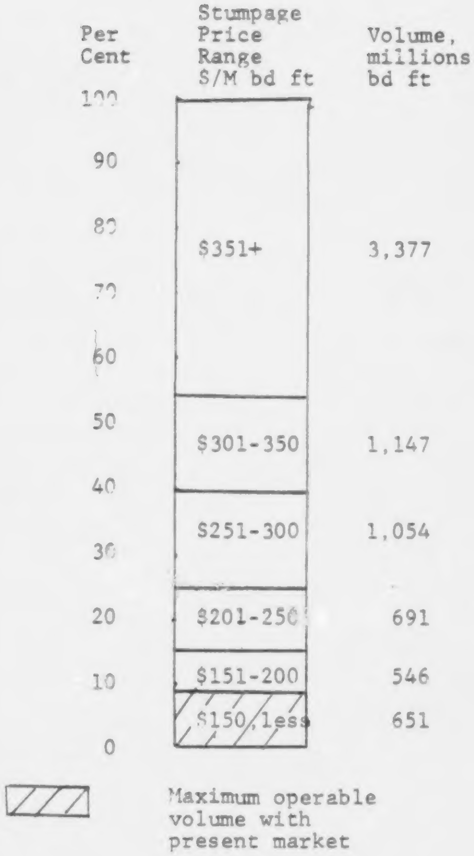


REMAINING VOLUME UNDER CONTRACT BY PRICE

FOREST SERVICE - WESTERN OREGON

9/30/81

Stumpage Price Range $/M bd ft	Remaining Volume Millions bd ft	Per Cent
n/a	7	.1
1-100	261	3.5
101-125	144	1.9
126-150	240	3.2
151-175	215	2.9
176-200	331	4.5
201-225	286	3.8
226-250	404	5.4
251-300	1,053	14.1
301-350	1,146	15.4
351+	3,378	45.2
Total	7.467	100.0



Senator HATFIELD. I understand we're in a four-alarm situation. I assure you we'll be responding as quickly as we can, and this kind of legislation will be helpful not just to the western part of Oregon, but to the industry as a whole.

I'm delighted that out of the hearing so far there has appeared to be a growing consistence within the industry, recognizing the difficulties that industry faces in different parts of the country and different components of the industry.

Mr. Ewing, on page 2 of your testimony, you refer to something I raised earlier about a rather bizarre bidding practice called uncontrollable rates, taking the fever of bidding out of their blood. Could you indicate what you mean when we talk about legal solutions as to overbidding?

Mr. EWING. I'd be happy to, Senator, and I'm pleased to say that now we have the legal authority to do other things.

When these things were purchased, operators were not required to show any real fiscal responsibility or performance and I did steal your words purposely here by taking the fever out of the blood, because I recall your statement. I look at relief when you people show me some fiscal responsibility and performance on timber sales contracts.

We talked to the Government about these kinds of things during this heavy bidding and they didn't have the legal authorities to do those kinds of things. They in turn, with industry participating, I'm pleased to say, that your man sat in and listened specifically to debates on both sides. I think he learned a lot of concern on how we handle the contracts. We supported strongly the types of things that would require fiscal responsibility, require performance, money, operations and so on. Those are the legal things I'm talking about. They're in the contracts now, and I'm pleased they're there, and we hope that this will curb the future speculative bidding or fever bidding that we may have had and that's what I'm saying.

Senator HATFIELD. Thank you very much. I want to thank each of you gentlemen. You've contributed a great deal to our hearing and we appreciate your taking the time and making an effort to be with us.

The subcommittee will stand in recess until 2 p.m.

[Whereupon, a recess was taken.]

AFTERNOON SESSION

Senator HATFIELD. The hearing will come to order. I'd like to invite at this time Mr. Peter Kirby and Mr. Tim Mahoney.

We have your full statement here if you wish to summarize it. We welcome you to our hearing.

STATEMENT OF PETER C. KIRBY, COORDINATOR, FOREST MANAGEMENT PROGRAM, THE WILDERNESS SOCIETY

Mr. KIRBY. Thank you. My name is Peter Kirby, the coordinator of the forest management program at the Wilderness Society. The conservation community is very sensitive to the economic problems besetting the Northwest because of high interest rates, the collapsing timber industry, and record unemployment. We want to help shape measures that lessen the human and economic impact of this recession and bring about eventual economic recovery.

Our most constructive role in this current debate we submit is to suggest ways that possible legislation can be improved environmentally and economically. If these improvements are made there will be greater public consensus and support of the bill, there will be greater likelihood of immediate relief to be afforded the Northwest.

Our position on the proposed legislation is that we generally support contract termination as the most appropriate relief that a timber company and communities that are sorely distressed by the sharp drop in housing construction and timber prices. As we will explain we have no objection in principle to legislation allowing for the termination of existing contracts provided the needed safeguards insure that the relief is economically sound and environmentally responsible.

The following are major points for improvement of your proposed legislation. First of all there should be a forest by forest moratorium on new timber sales in roadless areas until terminated sales in roaded areas are reoffered. According to the latest estimates more than 10 million board feet are now under contract in Washington and Oregon at prices that make the sales unprofitable to harvest. When these contracts are terminated it makes strong economic and environmental sense that they should be reoffered first before brandnew sales are made available.

From an economic point of view, the terminated sales should be reoffered first because of the obvious cost savings to the Government. These sales have already received environmental study; timber volumes and sale designs have already been surveyed, and personnel have already administered the sale at least once. Thus, from the standpoint of efficiency alone these sales should be recycled before new ones are offered. In addition, road access costs, which are one of the single biggest expenses of timbering, would be less for recycled sales in roaded areas than for new sales in areas not presently roaded.

From an environmental point of view, the reoffering of terminated sales in roaded areas will allow for a reduction in road construction mileage needed in the next few years. Road construction is one of the single biggest causes of environmental damage to the national forests; it often results in serious stream siltation, fisheries and wildlife habitat damage, and visual scarring, among other effects. By selling the terminated sales first, the Forest Service can still offer the timber levels set by Congress through appropriations and cause much less environmental damage.

In addition, roadless areas designated nonwilderness in RARE II would not need to be entered until the terminated sales are all reoffered. This outcome would benefit all parties conferring on wilderness legislation in the Northwest including the congressional delegations. They would gain additional time for study of areas under consideration.

Contract terminations should be the exclusive remedy for uneconomic contracts, not further contract extensions, adjustments, or price reductions. Contract termination appears to us to be the only remedy that is needed to address the current crisis. If uneconomic contracts are terminated, then the companies now holding them will not face default. And if the contracts are then reoffered, they will be sold at current market prices, allowing for work and employment to resume.

Extensions, adjustments, and price reductions are not needed at all if termination authority is granted and used. Moreover, these additional provisions have the effect of rewarding the speculators who bid up the prices of contracts in the late 1970's. With extensions, adjustments, or price reductions, these speculative bidders get to keep their contracts and profit from them. It is not in the public interest to do so. Overbid contracts should be terminated so that all qualified firms can rebid.

And lastly, Mr. Chairman, conservation groups strongly oppose any uneconomic and environmentally damaged road credit provisions being added to this bill. Preintroduction drafts of relief legislation contained a variety of provisions extending virtually limitless benefits to timber companies for the construction of roads to service timber sales. Under current law, the Federal Government reimburses timber companies for the costs of building timber-sale roads, but not for road costs beyond the value of the timber. Earlier drafts of this relief legislation would have changed the law to give timber contractors credit for all road construction costs, regardless of the value of the timber. Among our economic and environmental objections: The change in law would allow for an undisguised and uneconomic raid on the Federal Treasury by the timber companies. The change would reverse past efforts by Congress to bring economic commonsense to Federal timber management. The change would draw demand for timber to the national forests and away from private lands, which are generally more accessible and productive. Limitless road credits could disqualify millions of acres from deserved classification as wilderness. As we have explained, this change would threaten remote and inaccessible areas with heavily subsidized roadbuilding. Not only would the Treasury be the loser, but the many natural values of these wild places would be needlessly sacrificed. Lastly, this is not the first time that this type of road construction subsidy has been before Congress.

In concluding, Mr. Chairman, we submit that an additional point which emerges from this current situation is that there is clearly no need for any permanent designation of national forest roadless land as nonwilderness. In debate of S. 842 before this committee last year, proponents of permanent, legislative release for RARE II nonwilderness lands contended that there was a "paralysis" over the development of needed timber sales in roadless areas. However, the record at those hearings showed this contention to be groundless. With few exceptions, development in roadless areas has been occurring at a steady pace. Moreoever, the record at these hearings shows that the timber industry faces problems of timber demand, not supply. Thus, this is still another reason why the "hard" or permanent release of roadless lands is unjustified.

In sum, Mr. Chairman, the Wilderness Society and NRDC recognize fully the severe economic problems that the sponsors of S. 2805 have addressed. We hope that our suggestions for improvements, if adopted, will widen the base for its support in Congress and among the conservation community.

Senator **Hatfield**. Thank you very much.

[The prepared statement of Mr. Kirby follows:]

THE WILDERNESS SOCIETY

FOUNDED IN 1935

August 16, 1982

STATEMENT OF PETER C. KIRBY, THE WILDERNESS SOCIETY, ON PROPOSED TIMBER INDUSTRY RELIEF LEGISLATION BEFORE THE PUBLIC LANDS AND RESERVED WATER SUBCOMMITTEE OF THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES.

Mr. Chairman, my name is Peter C. Kirby, the Coordinator of the Forest Management Program at The Wilderness Society. The Wilderness Society, a nationwide group headquartered in Washington, D.C., is dedicated to principles of sound and balanced multiple-use management of the nation's forest and range lands and to protection of the unique values of our remaining public wildlands. Assisting in the preparation of the testimony is Al Sample, the forester of the Forest Management Program. This testimony is also being submitted on behalf of the Natural Resources Defense Council, a nationwide group headquartered in New York City, and dedicated to protecting America's endangered natural resources and to improving the quality of the human environment. Its forest specialists include Kaid Benfield in Washington, D.C. and Trent Orr in San Francisco.

We appreciate this opportunity to testify on S. 2805, a bill to provide for the termination, extension or modification of contracts for the sale of federal timber, and on S. 2818, a bill to allow for the adjustment of termination dates of timber sale contracts. At the outset we commend this committee and the sponsors of the bill for seeing that these essential hearings are being held. The sponsors may be well-advised to see that field hearings are provided as well so that all the affected groups can voice their

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views about the significant impacts of this legislation. Our position on this legislation is that we generally support contract termination as the most appropriate relief for the timber companies and communities that are sorely distressed by the sharp drop in housing construction and timber prices. As we will explain, we have no objection in principle to legislation allowing for the termination of existing contracts provided that needed safeguards ensure that the relief is economically sound and environmentally responsible.

The Wilderness Society and NRDC are very sensitive to the economic problems besetting the Northwest because of high interest rates, a collapsing timber industry, and record unemployment. We want to help shape measures that lessen the human and economic impacts of this recession and bring about eventual economic recovery. Our most constructive role in this current debate will be to suggest ways, as noted, that legislation can be improved environmentally and economically. If these improvements are made there can be greater public consensus in support of a bill and a greater likelihood that needed relief can be afforded the Northwest. The following are our major points for improvement of S. 2803:

1. There should be a forest-by-forest moratorium on new timber sales in roadless areas until terminated sales in roaded areas are reoffered for sale. Section 2(1) of S. 2803, the legislation intorduced by Senators Hatfield, Packwood, Jackson, Gorton, and Cranston, authorizes the Secretaries to terminate contracts entered into prior to January 1, 1982. According to the latest estimates, more than 10 billion board-feet are now under contract in Oregon and Washington at prices that make the sales unprofitable to harvest. When these contracts are terminated it makes strong economic and environmental sense that they should be reoffered first before brand-new sales are made available.

From an economic point of view, the terminated sales should be reoffered first because of the obvious cost savings to the government. These sales have already received environmental study; timber volumes and sale designs have already been surveyed, and personnel have already administered the sale at least once. Thus, from the standpoint of efficiency alone these sales should be recycled before new ones are offered. In addition, road access costs, which are one of the single biggest expenses of timbering, would be less for recycled sales in roaded areas than for new sales in areas not presently roaded.

From an environmental point of view, the reoffering of terminated sales in roaded areas will allow for a reduction in road construction mileage needed in the next few years. Road construction is one of the single biggest causes of environmental damage to the National Forests; it often results in serious stream siltation, fisheries and wildlife habitat damage, and visual scarring, among other effects. By selling the terminated sales first, the Forest Service can still offer the timber levels set by Congress through appropriations and cause much less environmental damage.

In addition, roadless areas designated non-wilderness in RARE II would not need to be entered until the terminated sales are all reoffered. This outcome would benefit all parties conferring on wilderness legislation in the Northwest, including the Congressional delegations. They would gain additional time for careful study of areas under consideration.

2. Contract terminations should be the exclusive remedy for uneconomic contracts, not further contract extensions, adjustments, or price reductions. We do not support the approach of S. 2818, the legislation introduced by Senators McClure and Symms, that authorizes the adjustment of termination dates. We also urge that Sections 2(2) and (3) of the Hatfield bill, allowing

for time extensions and price reductions on existing contracts, be deleted. Contract termination appears to us to be the only remedy that is needed to address the current crisis. If uneconomic contracts are terminated, then the companies now holding them will not face default. And if the contracts are then reoffered, they will be sold at current market prices, allowing for work and employment to resume.

Extensions, adjustments, and price reductions are not needed at all if termination authority is granted and used. Moreover, these additional provisions have the effect of rewarding the speculators who bid up the prices of contracts in the late 1970's. With extensions, adjustments, or price reductions, these speculative bidders get to keep their contracts and profit from them. It is not in the public interest to do so. Overbid contracts should be terminated so that all qualified firms can re-bid.

3. Conservation groups strongly oppose any uneconomic and environmentally-damaging road credit provisions being added to this bill. Pre-introduction drafts of relief legislation contained a variety of provisions extending virtually limitless benefits to timber companies for the construction of roads to service timber sales. Under current law, the federal government reimburses timber companies for the costs of building timber-sale roads, but not for road costs beyond the value of the timber. Earlier drafts of this relief legislation would have changed the law to give timber contractors credit for all road construction costs, regardless of the value of the timber. Among our economic and environmental objections:

* The change in law would allow for an undisguised and uneconomic raid on the federal Treasure by the timber companies. Under present law, if a sale has $50,000 worth of timber, the company gets no more than $50,000 in reimbursement for road costs. If the law were changed as proposed in earlier

drafts, the company could be reimbursed for $150,000, let's say, for costs in reaching this $50,000 worth of timber. The Treasury would, in effect, be paying timber companies to take federal timber for free. In our hypothetical case there would be no receipts (or only nominal amounts) going to the Treasury for the $50,000 worth of timber and $100,000 in revenues being taken from the Treasury because of the road construction subsidy. Even though road credits effectively take money from the Treasury, they are not treated as appropriations by Congressional appropriations committees. Hence, the change in the law to allow all road costs to be reimbursed would allow for a major and unscrutinized drain on the Treasury.

* The change would reverse past efforts by Congress to bring economic common-sense to federal timber management. Section 6(k) of the 1976 National Forest Management Act directs the Forest Service to consider economic efficiency in making timber sales and investments. Limitless road credits, not even subject to the appropriations process, would remove major disincentives for the agency in pursuing highly uneconomic sales in remote areas. Section 6(k) of a basic forestry law could be subverted without Congress even knowing it.

* The change would draw demand for timber to the National Forests and away from private lands, which are generally more accessible and productive. Private landowners do not receive federal subsidies to road their lands for uneconomic timber sales. If limitless road credits are allowed in National Forests, companies will very logically look first to buy from the federal government, to the unfair disadvantage of the private landowners.

* Limitless road credits could disqualify millions of acres from deserved classification as wilderness. As we have explained, this change would threaten remote and inaccessible areas with heavily-subsidized

roadbuilding. Not only would the Treasury be the loser, but the many natural values of these wild places would be needlessly sacrificed.

* Lastly, this is not the first time that this type of road construction subsidy has been before Congress. Senator McClure introduced a similar provision in 1975 (S. 364) only to have it rejected by the fiscally conservative Ford Administration. This revived proposal should not be accepted in 1982 as an addition to needed contract termination legislation. It is not related to the effects of the current recession and would cause wholly unacceptable economic and environmental consequences.

In concluding, Mr. Chairman, we submit that an additional point which emerges from this current situation is that there is clearly no need for any permanent designation of National Forest roadless land as nonwilderness. In debate over S. 842 before this Committee last year, proponents of permanent, legislative release for RARE II nonwilderness lands contended that there was a "paralysis" over the development of needed timber sales in roadless areas. However, the record at those hearings showed this contention to be groundless. With few exceptions, development in roadless areas has been occurring at a steady pace. Moreover, the record at these hearings shows that the timber industry faces problems of timber demand, not supply. Thus, this is still another reason why "hard" or permanent release of roadless lands is unjustified.

In sum, Mr. Chairman, The Wilderness Society and NRDC recognize fully the severe economic problems that the sponsors of S. 2803 have addressed. We hope that our suggestions for improvements, if adopted, will widen the base for its support in Congress and among the conservation community.

STATEMENT OF TIM MAHONEY, WASHINGTON REPRESENTATIVE, THE SIERRA CLUB, AND REPRESENTING THE NATIONAL AUDUBON SOCIETY

Mr. MAHONEY. My name is Tim Mahoney and today I'm representing both the Sierra Club who employs me, and the National Audubon Society.

People don't necessarily join the Sierra Club or the Audubon Society to take positions on primarily economic issues. Nevertheless, our members as all Americans, want to see a healthy economy, healthy industry, and reductions in the unemployment levels in the Northwest as everywhere. Consequently we want to work constructively with you and your staff, other Members of the Senate, to try to find a way to resolve the crisis facing the timber industry in the Northwest in the most environmentally benign manner.

We are examining the legislation fundamentally looking at it with two questions. First, will the legislation help the timber industry deal with problems relating to the current economic climate, and second, how will this legislation affect sound longer term multiple use management to or federally administered forests?

We believe we would suggest some clarifications and modifications to S. 2805 as introduced. Specifically, we believe that the timber sales which have been terminated should be to the greatest extent practicable, the first sales to be reoffered before new roads and new contracts are granted into previously undeveloped areas. In this way we might eliminate some unnecessary environmental damage and give Congress a greater period of time to work with the RARE II question, specifically in States such as Oregon where the question has been one of polarization.

Second, we prefer not to see a rollback provision in the legislation, preferring instead simple termination. A rollback provision appears to us to be inequitable, and it may reward some of the more imprudent companies over the more responsible companies.

Lastly, to the extent that we can we would like to minimize the contract extensions because they do not provide immediate employment and we are concerned that such sales may be held for a long period of time during which times new sales and new roads may be granted into more environmentally sensitive areas.

Although the question of road credits has not been brought up by the legislation before us, it may be raised as an amendment further on in the legislative process. I would just echo what Mr. Kirby has said about the problems that we see with the road credit proposals. We believe that unlike the contract termination proposals, road credit proposals have severe environmental impact over a long period of time.

If some of these changes can be enacted, we would have no difficulty in supporting this legislation. Moreover, we would like to see the constructive attitudes that our members have taken toward working on this legislation are echoed with other legislation before the Congress. And particularly we hope that a constructive spirit will pervade over the wilderness question and that some of the interest groups that have testified earlier today seeking rapid resolution and cooperation on timber relief legislation will be equally cooperative and constructive in addressing some of the other problems facing the national forest.

Thank you.

Senator **HATFIELD**. Thank you.

[The prepared statement of Mr. Mahoney follows:]

STATEMENT OF TIM MAHONEY

Mr. Chairman, my name is Tim Mahoney. I am representing the Sierra Club, a national conservation organization with more than 300,000 members. I am also representing the National Audubon Society, a national conservation group with nearly one half million members. Thank you for this opportunity to testify on S. 2805, a bill to provide for the termination, extension or modification of certain contracts for the sale of federal timber.

The Sierra Club and the National Audubon Society have worked since their beginnings to encourage forest practices which will both assure a sustained yield of high-quality timber from our federally administered lands and protect other values for which these lands are required by law to be managed. Our members throughout the country have worked for years—and continue to work—to protect significant roadless areas as wilderness, to protect wildlife values, fisheries and clean water sources. We believe that the maintenance of a healthy timber industry is compatible with our goal of sound forest management. We recognize that the timber industry has been hit very hard by the current recession and believes that the revival of the timber and building industries must be an important element in the recovery of the economy as a whole. At present, our members are working closely with Forest Service personnel throughout the country on individual forest plans to encourage a move away from cutting timber on lands which are economically or biologically unsuitable for timber production. Thus we are examining the legislation under discussion today by asking two fundamental questions. First, will this legislation help timber companies deal with problems related to the current economic climate? And second, how will this legislation affect sound long-term multiple-use management to our federally-administered forests?

With certain clarifications and qualifications, we view the legislation which has been introduced as relatively neutral from an environmental point of view. However, various legislative ideas designed to help the timber industry recover from the present recession have been circulating on the Hill for several months, some of which have contained provisions which could be extremely damaging to the environment. Rather than confine my remarks entirely to S. 2805, I would like to address the broader question of timber industry relief legislation and touch on provisions which are not actually part of the three bills which have been introduced (S. 2805, S. 2818, and H.R. 6913) but which were included in earlier draft proposals, and the themes of which will undoubtedly be raised again.

The federal government has already taken steps to help alleviate the economic plight of the industry; both the Department of Agriculture and the Department of Interior have adopted extension policies for companies with federal timber contracts. The agencies already have that authority.

Thus, we do not see an obvious need for Congress to pass legislation regarding contract extensions; the language in Section 2(2) of S. 2805, providing for an extension of up to 5 years beyond the original termination dates of contracts, appears unnecessary. Similar language is included in S. 2818 which goes on to make it clear that penalties would not apply to terminated contracts.

We do not oppose the language in S. 2805 permitting outright termination of an unspecified portion of timber sales contracts. We believe that the language in Section 2 of this bill requiring a showing of economic hardship before contract modifications of any kind are permitted is a sound idea, since the federal government must enforce the concept that a contract should be fulfilled except in truly dire circumstances.

We do feel that legislative language permitting contract termination should be refined by adding a provision requiring that the same sales that are terminated be re-offered and sold again before any new sales are offered in roadless lands. Such a prioritization policy would have the effect of reducing conflicts between logging activities and the protection of roadless areas. It would also give congressional delegations a greater opportunity to consider national forest wilderness legislation. And it makes economic sense since all the work to prepare for those sales has already been completed.

With the inclusion of such language requiring the reoffering of terminated sales before new sales were offered, we do not oppose legislation permitting contract terminations. This is a legitimate method to help timber firms with federal timber sale contracts get through the recession.

We are, however, very concerned at the language of Section 2(3) of S. 2805 which would permit modification of the purchase price of timber sold to reflect present market values for contracts that are not extended. Administratively reducing the prices of timber sales contracts would, in effect, reward companies that speculated on high priced timber during the past several years and, by the same token, would penalize companies which had not overbid on contracts. We believe that, if the Secretaries of Agriculture and Interior were authorized to lower the purchase price for timber sales, there would in fact be very few terminations. As in the case of contract extensions, we believe that outright termination and the later reoffering of the same contracts that are terminated is a much preferable policy, allowing the market mechanism to determine the price. At the very least, if the "rollback" idea is adopted, a base price should be set to guarantee that costs for site rehabilitation, reforestation and new sales preparation work can be accomplished.

There are several other provisions which, though not included in any of the bills which have been introduced so far, deserve comment because they have been integral parts of debates over the past few months concerning what the elements of timber industry relief legislation should properly be. I want to mention three such ideas now, none of which our organizations believe are related to the current recession and any or all of which we will oppose if they come under active consideration by Congress.

First, some drafts of timber industry relief legislation have contained language which would allow the conversion of "ineffective" purchaser road credits into "effective" credits. This would mean that timber companies would be given credit for road costs in excess of price of a timber sale. Such a policy would inevitably result in a dramatic increase in bidding for deficit sales, since they would now have a value beyond that of the timber offered. There would be no constraints on timber harvesting due to costs of road construction, and the Forest Service would get into situations in which it would actually have to pay to have timber cut instead of being guaranteed a minimum price. This proposal would thus add to federal deficits.

Another notion which appears in several drafts of relief legislation would permit purchaser road credits to be transferred from one national forest to another, an idea which would benefit large companies with contracts in different regions. The companies would be able to credit the costs of deficit sales in one region against revenues from profitable sales elsewhere in the national forest system. Again, this idea has nothing to do with the current recession and would create incentives to cut timber on unsuitable lands. Both of these issues have been analyzed in a recent Congressional Research Service Report dated June 2, 1982 by Robert E. Wolf. I request that this report be made a formal part of the hearing record.

Finally, earlier drafts of relief legislation have contemplated granting authority to the administering agencies to require a purchaser to perform all or any portion of road construction in terminated sales. Such a policy would set the stage to offer new sales in roadless lands, "leapfrogging" over terminated sales and unnecessarily jeopardizing roadless lands.

Mr. Chairman, in summary, the Sierra Club and the National Audubon Society do not oppose legislation which simply allows for the termination of federal timber sales contracts. But such legislation should require the resale of terminated contracts first and should not become encumbered with non-recession-related issues such as road credit conversions or transferability.

Thank you.

Senator **HATFIELD**. Both Mr. Kirby and Mr. Mahoney, you have indicated your support for termination but not for extension as I understand your testimony. Would you elaborate a little bit further on your objections to the idea of the modification vis-a-vis extension or a combination of extension and termination as it relates particularly to those who have a multiple number of contracts that are now in effect. And the assumption that I make, and that you agree with, is performance of contract would be, I hope in all cases, and the only reason that we're considering this legislation, is as you have recognized, inability due to economic markets to perform that contract. And rather than using merely a single proposal for modification as you have advocated, I have attempted to develop the flexibility within the agencies to give them more than one opportunity, or more than one chance, or more than one way to modify that.

I don't think contracts are that uniform. And I'm just reluctant, after having attempted to move on a single rollback proposal and then join Senator McClure on a possible combination of road credits and termination or partial termination, that we need as many formulas as we can develop here to relieve the diversity of the problem.

Would you mind elaborating a little bit why extension is not within the purview of your support?

Mr. MAHONEY. I hope that we didn't come across as being completely negative on this. We recognize that some extensions may be necessary, may be unavoidable. The Forest Service at least has authority currently to grant extensions and is granting extensions. To the extent that extensions do not provide for payments to the Treasury or the local counties or put people to work immediately, they are certainly less desirable from an economic standpoint to a new contract. I think the primary environmental objection, which may be able to be addressed in legislation, is that certain companies with large numbers of contracts outstanding may sit on their extensions. And they ask for long-term extensions and hold those timber sales which have already been laid out while they bid on new sales in previously undeveloped areas of lower prices.

It's sort of the bird in the hand type approach. If there is a way to eliminate that particular problem, I don't think we see the environmental impact as being too great.

Mr. KIRBY. Let me say, we also share the concern you expressed this morning about the excessive bidding in the late 1970's. If contracts are uniformly terminated then everybody starts fresh again and those who excessively bid in the late 1970's don't have the advantage of keeping some of those contracts. So that's why as a general rule we would prefer terminations to extensions, although in particular cases as Mr. Mahoney said, there may need to be some flexibility.

Senator HATFIELD. Of course in that termination you would not anticipate that those sales, or those areas terminated in the contract would be put back on the market immediately.

Mr. KIRBY. Those would be the first priority sales to be offered.

Senator HATFIELD. But at the same time if we had a wholesale termination and a wholesale return to the marketplace, I'm not so sure that we really want that situation either, as you heard some of the testimony this morning, early on, about what that could do in effect to—

Mr. KIRBY. That's right. Those terminated sales would have to be resold on an orderly basis, but they could substitute the new sales over the next few fiscal years and produce a number of environmental advantages.

Mr. MAHONEY. We've been concerned that some of the Forest Service officials and some of the officials in the administration are more eager than we wish they were to enter new roadless lands and we would prefer, or to follow that up, we're concerned that if the discretion of when to offer the terminated sales is left completely up to their discretion that they may not be re-offered for some time to come, or at least many of them may not be re-offered until some time to come, and those are the sales that have a lot of work already done on them and we believe it would be more environmentally benign if they were the first to be offered.

Senator **Hatfield**. We would welcome suggested language added to the bill or clarifying. We've had some good suggestions already. Mr. Ewing proposed a suggestion to tie down that matter earlier, and also the matter of what to determine as an economic hardship. That's the phraseology that needs to be tightened up, I think. And also the matter of perhaps not in this bill, but I do think these new requirements of bidding can help forestall those spiral-type biddings that we've experienced before.

We thank you very much.

I'd like to invite the next panel up please. We have your full statement which I will place in the record in complete form, and invite you to summarize. Because of problems of time constraints, there's a matter on the floor that I may have to go to in a very few moments, so I would hope that we could get through with the other panels.

STATEMENT OF HARRY WILLIAMS, PRESIDENT, WILLIAMS FOREST PRODUCTS CORP., CLEVELAND, TEX., AND SOUTHERN FOREST PRODUCTS ASSOCIATION, NEW ORLEANS, LA.

Mr. **Williams**. Mr. Chairman, I'm Harry Williams, the president of the Southern Forest Products Association which represents the production of three-fourths of all the yellow pine in the Southern States. I'm also the chief executive officer of Williams Forest Products Corp.

I'd like to ask one of the young ladies if you would, Senator Bumpers caught me in the hall and said please get me notified when you testify, so he's probably hoping to have some questions, and also Senator Johnston's office.

You have my written statement for the record, and in the essence of time I'm going to just pass that and you enter it in the record for me please, and get to hopefully some constructive suggestions that would help the South be able to support a solution for this devastating problem.

Our people in the South have some legitimate fears about the marketplace because the only thing that is going to cure the problem is to get interest rates down and housing starts up. So where we do have a reasonable market for our products and industry, there is one thing that is of grave concern to the Southern interest and that is that the Government is selling on the west coast timber volumes at a level to sustain 2 million housing starts, and yet we have only less than 1 million housing starts. The problem is that if we have an excess sales program on the west coast and the timely market is not there, then it undervalues the 2.5 million private, nonindustrial landowners' property, their natural resource. So when huge volumes of timber are sold when the market's not out there, by the Federal Government, they're slashing the value of every private investor in the timber industry in any part of the Nation. So that's what we're confronted with.

Now our association became acutely aware of this and we would want it to come to the surface and say we're sympathetic with the Western problem, we'd like to help you, and I think we proved in the past that we had the ability to vote our people in the South pretty well in a block either for or against, and we want to be a part of the solution. We have agreed that we can go along with No. 1, up to 40-percent contract termination and 15 million feet one time termination for small, independent operators. We're very conscious and we want to keep the small independent entrepreneur, family operator alive, if there's any way possible.

We have agreed that we can go along and support 5-year contract term adjustment. We don't like extensions because the companies that are already in bondage are strapped with deposit payments and various kinds of payments, but we would support contract term adjustments up to 5 years.

In return for supporting the 40-percent termination, 5-year-term adjustment, Senator, we would like some kind of a cap. Now we're not telling you exactly what it's got to be, but something that is tied to cut a sales program that is tied to cut, it could be the average of the prior 5 years, but it's absurd that we have in the budget to sell 5.4 billion board feet in region 6 this coming fiscal year, and we all know there's no way that there would be more than 3.1 or 3.2 billion board feet cut. We're overselling the company 2 billion board feet out there. And what does that do? It drives the values in the South down.

All the people that have invested their money in growing timber in the South——

Senator HATFIELD. May I interrupt at that point, and at the same time that budget for 1983 proposes a 20-percent cut in timber research problems. It's a bad allocation.

Mr. WILLIAMS. I think you can understand, as the people in the South basically depend on 2.5 million private nonindustrial landowners to furnish the vast majority of their timber. When we buy a contract, most of the time it's a 1- or 2-year contract and it's bought and paid for at the time and we're taking astronomical losses on contracts that we have our money invested in right now that we have to cut because we've already paid for it, and if we don't cut the timber we'll lose it. So our mills are taking a shellacking too. I suggest to you that there's no way we'll be able to get the South to even consider any form of price roll back, and I know that this is something that your county people out there and some of your constituents lean on you and would like to have, but I'll tell you, as far as the South, there is no way they will support the bill if the roll back is in there.

We can support contract termination and would like to. We would like to support contract term adjustment to give the people time to work out from under it. If you can't put a cap on region 6 and—some way to cut, then we want something in there to protect us from getting overrun in the marketplace.

Now let me insert one other thing. You asked a question this morning, and it really hit home to me and I think every other southerner that was in here. In the South we invest vast sums of money for reforesting the land and taking care of it and growing timber, and the Government is responsible for doing that in the

West, but we think it is absolutely absurd for the Government to let the timber operators tie up all the timber in the world for a very very small deposit, and we strongly believe that the deposit that is in the new timber contract is not nearly adequate to discourage speculation in the future, and if we had a more adequate deposit in these national forest timber sales, then the people that were bidding them would be a lot more cautious about only bidding what they only intended to cut because they would have a real economic basis in it when they put their dollars in it.

I hope I've given you something that will be helpful.

Senator **Hatfield**. You have, Mr. Williams.

[The prepared statement of Mr. Williams follows:]

SOUTHERN FOREST PRODUCTS ASSOCIATION
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STATEMENT OF
HARRY WILLIAMS
PRESIDENT OF THE
SOUTHERN FOREST PRODUCTS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER
OF THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
ON
TIMBER SALE CONTRACT MODIFICATION
AUGUST 16 & 17, 1982

I am Harry Williams, president of the Southern Forest Products Association, whose headquarters are in New Orleans, Louisiana. I am also President of Williams Forest Products Corporation, Cleveland, Texas. We are very grateful for the opportunity to testify at these hearings and I want to congratulate Senator Hatfield for wanting to do something constructive about a very bad situation.

The member companies of our Association have operations in Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North and South Carolina, Oklahoma, Tennessee, Texas and Virginia. Their mills account for almost three-fourths of the total Southern Pine lumber production. Our members have been gravely hurt by the collapse of the housing market which has plunged our industry into its worst crisis since the Great Depression of the 1930's. Southern Pine lumber production and shipments have been running 30 percent below normal and the unemployment rate at our member mills has risen above one-third.

We are aware, of course that our plight in the marketplace is shared by Western lumbermen. We also know their problem has been aggravated by the very large amounts of National Forest timber contracted for in the late 1970's at higher prices than you can sell lumber for today. We feel that massive defaults on these contracts by Western operators would not only be catastrophic for the timber economy of that region but also for us, since under current Forest Service policy the defaulted timber would have to be placed back on the market in amounts far exceeding current demand levels. The resulting "glut" of the market place with Western National Forest timber at extremely low prices could be disastrous for Southern lumbermen who get most of their raw material from privately owned lands. Not only would this competition force down the prices of private timber -- to the great detriment of the South's two and one-half million nonindustrial private forestland owners -- but would also adversely affect the stock values of timber companies owning forestland in our region.

So it is with an instinct for self preservation as well as our desire for recovery of the timber economy in all producing regions that we look with sympathy on the quest of the western operators for legislative relief from their contractual problems.

However, we cannot support efforts to provide for the comfortable recovery for our Western friends at the expense of the industry and jobs so vital to our region. We are aware that with more than one-third of our member mills closed down we can ill afford any further contractions of an already depressed lumber market. Therefore, we are determined that in our efforts to help solve the Western contractual problem, we do nothing that will compromise our own situation.

Evidence indicates that lower stumpage prices for National Forest timber in the West have made it possible for that region to capture a larger share of our backyard lumber market, inspite of substantially higher transportation costs.

The Western Wood Products Association reports that in the first six months of 1982 the South took a larger share of lumber from Western sawmills than at any time since 1970. This is not difficult to comprehend when one considers some of the advantages Western operators have even under present market conditions.

A comparison of minimum bids and average successful bids between Forest Service Region 6 in the Northwest and Region 8

Forest Service in the South is significant. In 1980, Region 8 had an average advertized minimum bid of 139.56 compared to 87.02 in Region 6.

Successful bid prices that year in Region 8 averaged 195.89 whereas in Region 6 they averaged 306.84. The figures for Region 6 are averages of East and West side prices, which are substantially lower in the East.

From these 1980 figures, it seems obvious that in relatively good times the cost of successful bids in the West prices their product out of the South. But then they don't need to because they can sell their production at home.

But lets compare some more recent statistics. In June 1982 the average minimum bid for Region 6 timber was $41.72, less than one-half the average of 1980. Successful bid averages were $79.58 only one-fourth of the average price in 1980.

In Region 8, quite the opposite was true. In June 1982, the average bid price was $134.22, only 5 dollars less than in 1980.

Successful bids averaged $149.77, more than 3/4's the 1980 price and $70.19 more than that for National Forest timber in the West. With that differential its small wonder that more Western lumber has found its way South. Our problem is aggravated by the Canadian Government's subsidization of their industry, but that is another matter.

There are other advantages that Western operators have such as log scaling which does not exist in the South, a different bidding procedure, more advantageous Forest Service Contracts, and requirements to put less money down and more.

We therefore, are considering some agreement which will allow survival of the Western industry without unnecessarily imperiling the survival of our own. With respect to this, the chronology of our involvement with the issue is illuminating.

On January 28 of this year, our Executive Committee adopted a resolution approving extensions of Federal timber contracts but opposing terminations and rollbacks. Then, as the magnitude of the crisis in the West became increasingly obvious, our position changed. At our midyear meeting in early June, we voted to rescind the earlier resolution on termination and to actively support relief legislation, provided that it contain certain stipulations and provisions.

Since the June meeting, our officers and executive committee have struggled daily to find a solution that would meet industry-wide acceptance. We have negotiated with the Western operators. We have met with Assistant Secretary of Agriculture John Crowell on several occasions. And the Association officers have spent innumerable hours on long distance conference calls.

The results of a July 16 written poll of the members of our executive committee indicated their support for relief legislation provided that it include a cap on Forest Service sales in Region Six plus other safeguards. The cap we propose is 4.1 billion board feet annually in Fiscal Years 1983 & '84. Also, we would approve an escape clause providing that if the Secretary of Agriculture determines that the demand for forest products increases, as indicated by housing starts, on an annualized basis to reach or exceed 1.6 million units for three consecutive months, the Secretary shall revert to a normal sales program.

Additionally we can support no legislation allowing greater than 40% termination of a federal timber contract. Wholesale termination would grant sanctuary to speculators and encourage such operations at the expense of legitimate timber interests. It was no doubt speculation, to some large extent, which bid up the price of Western timber to such dizzying heights in the late 1970's.

Termination and caps notwithstanding, we feel that the most acceptable and least controversial manner in which to solve the timber sales crises is addressed in S. 2818, by Senator McClure. This bill would authorize the Secretaries of Agriculture and Interior to adjust the termination dates of any contract entered into before January 1, 1982 for up to five years without penalty.

Such a contract term adjustment would provide time and allow for markets to return to more reasonable levels. It would allow operators to mix new and old sales thereby allowing them an opportunity to achieve a realistic price structure without complete reliance on timber that can't be manufactured and sold at a profit in today's depressed market. Contract term adjustment would also require some accountability from those who bid and thereby bound themselves, a better lesson than that which would be taught by wholesale termination. Contract term adjustments would also delay but not reduce greatly the large sums due the federal government for the Forest Service sales.

Forest Service statistics indicate that unless a cap is imposed on Region Six sales, the problem we are here to address today will not be solved but further aggravated. In 1981, the volume of National Forest timber under contract but not harvested exceeded 32 billion board feet, of which more than 16 billion feet -- or about one-half -- was in Region Six. The total estimated for 1982 is over 33 billion feet.

Just why is this unharvested backlog is so huge is evident from other figures for Region Six. In 1979, slightly more than five billion board feet were sold in the region and about four and one-half billion feet were harvested. But, thereafter, the divergency grows. For 1980, the totals were slightly more than five billion feet in sales and three and a half billion feet in harvests. In 1981,there were five and a half billion feet in sales and only three billion feet in harvests. In 1982, the gap is believed to be even wider.

From such statistics, it's obvious that without a cap on Region Six sales and maximum of 40% termination, as we propose, the volume of sold but unharvested National Forest timber will continue to accumulate in a manner not unlike the growth of the Federal deficit. And since, the Forest Service is seeking five point four billion feet of Region Six sales for 1983 and 5.8 billion feet in 1984, the danger of a market glut from the termination of harvested sales grows appreciably.

In addition to our insistence on a cap and 40% maximum on terminations which would eliminate the danger of a market glut in a period of low demand, we are also extremely concerned about proposals that purchasers' credits for road building and other work in connection with National Forest timber sales be allowed to be shifted from one National Forest Region to another. We fear that could open a can of worms. For example, an operator with contracts in Region Six but who also has operations in the South, might be able to shift his credit from the West to a National Forest in Region Eight and get his Southern timber, in effect, without further investment.

We would prefer that transfer of credits be limited to the region and National Forest of origin and to sales made prior to January 1, 1982.

We also believe that any relief legislation should provide some mechanism whereby terminated and/or defaulted timber is returned to the market in an orderly fashion and in amounts that will not increase the levels of the existing sales program in a depressed market. While we will support up to 40% terminations if proper safeguards are included in the legislation, we also are convinced that some performance on the part of the operator should be required on his remaining contracts.

Since Senator Hatfield's bill does not contain a Region Six sales cap or other safeguards we have proposed, we cannot support the bill in its present form. We have also noted that the language of the bill provides for price modifications. While we have rescinded our original opposition to terminations, we remained unalterably opposed to price rollbacks because of the loss of money that would involve for the Federal government at a time when fiscal responsibility is all important, and because it would be unfair to other lumber producers not benefitting from the rollbacks. Moreover, there are disparities in sales contracts between Forest Service regions which should be addressed by the legislation. Southern operators bid under a "transaction evidence" appraisal system that does not respond favorably in falling markets. The more responsive "residual value" system used in the West has resulted in lower timber prices in the West than those other producters must pay in the South.

I sincerely hope these problems can be worked out in the course of developing the legislation in a way that will create genuine consensus within the Congress, the Administration and the industry as to what will best serve the public interest in this urgent matter.

Senator **Hatfield**. Let me just break the pattern here and pick up a couple of questions with you before I go on to the next witness.

You mention about a cap. I find that very difficult to accept for a particular region. I know your argument is valid in terms of not having unrealistic allowable cuts in a time when the market is obviously not able to absorb them, but what about reaching that result by the national allowable cust being reduced rather than reaching in and pulling one region out, to cap one region. I find that a little bit discriminatory in a way, and not really in the interest of forest practices.

Mr. **Williams**. Senator, to my knowledge, region 6 is the only region in the national forest that has a much greater sales program in volume than what their average annual cut is, and it's the only region within the national forest where the sales program far supersedes what the annual cut is. Our feeling is when you sell a lot more than what your cut is that you're going to undervalue not only what you have, but everything that everyone else has because of the demand.

Senator **Hatfield**. But I think we're missing a very important point here, and that is the sales program prepared for 1983 are not going to be harvested in 1983 in all likelihood, and if we're going to get this timber economy off the roller coaster type character that it's had in the past, we realize that these timber sales from 1983 are in all likelihood going to be harvested in 1985 and 1986. I think the greatest pessimist amongst us today in economic forecasting would have to at least believe that we're going to have some significant increase in national home building requirements by those, on what those contracts will actually be harvesting. We can cut back and put caps at this particular time, but if those caps in effect are going to force the prices up again, on that roller coaster thing in 1984, 1985, and 1986, whenever they come due for harvest, I think you're mixing apples and oranges here.

You talk about the caps for 1983 and recognize those caps are not going to actually be realized, or the effect of those caps, until out years when those contracts come to harvest time. That's another one of the problems I had in trying to accept the idea of a cap.

You people in the timber industry, you know you don't rank that much higher than politicians in public esteem in confidence and trust, even out West where I come from. There are still significant segments of the population, still refer to you are rubber barons and timber barons, and those are not complimentary terms. Part of it is gouging the prices and all these other things that people react as a consumer, they react against the high prices as they see.

So all I'm saying simply is, I think we have to try to minimize those great fluctuations in the market place that have been so characteristic of the timber industry for so long.

You know, you constantly hear people say, well if they're so hard up, why do I still have to pay the price that I still have to pay for the product? I they're really all that hard up, as they telephone you from Palm Springs and complain about this or that or the other thing, why is it that those prices haven't been more reflective of those hard times in production?

I know we might have all kinds of complicated and not so complicated answers to give to those people, but that's a public perception. Much like politics, we deal with perceptions as much as we deal with substantive. I am very fearful in this whole matter of capping that we're inviting more distortions in the years ahead in this whole timber market as it relates to consumers.

Mr. WILLIAMS. Senator, I agree with you in that particular area, but let me share with you some cold, hard instances. In the South, many of the lumber operators not only the mills but they own the lumberyards, and these are strong cats. I mean you call them timber barons if you want to and rightfully so, but they own the land, they grew the timber, they buy from private nonindustrial landowners, but right now the only thing in the world that's going to solve our problem is to get interest rates down and get homebuilding back up and get our market back. Because my phone rings off the wall at night as the president of the Southern Association, and I have mill operators that cannot sell lumber in their own lumberyards 25 or 50 miles down the road because the lumberyards are buying more west coast lumber than they ever bought before, a lot cheaper than the mills right there at home can sell it to them. And the reason is that the people that own the timber and the private nonindustrial lands for the most part will not reduce their prices like the Government has. So our timber is about the same price it was last year, and about the same price it was the year before. And so consequently, more and more western lumber is coming our way.

You have to understand, the guy that owns the mill also own the lumberyard.

Senator HATFIELD. I'm not so sure it's western lumber; maybe it's Canadian lumber.

Mr. WILLIAMS. Well both, but there is a lot more. Even the Western Woods products letter that came out here just last week, the week before last, said they were shipping more lumber to the South than they had since 1970.

Well that makes your bid very difficult for me to get the South to support, unless we can pretty well know that we are not going to be distorted in the marketplace. And I tell you, I didn't come all the way to Washington to torpedo your deal, I came up here to try to get a solution and I want to try to help you get it done, but somehow or another I have to have our southern people feel like they're not going to get run over in the process even though they want to help the westerners.

Senator HATFIELD. Well, I'm very grateful for your offer of help and you've been helpful even long before this hearing. Let me also make something very clear, and you need the West very much in this whole national picture, and we need the South. It's not an either/or. It's not a matter of one played against the other because you couldn't come close to supplying the national needs without the western input any more than the West supplies the national needs without the southern input. And all that's going to benefit from our failure to really come together to try to maintain the total American timber industrial base. The one to win in our failure on that part will be the Canadians.

Now that's our common adversary at this point. So be it. I don't mean to try to play Canadians against the Americans or the Americans against the Canadians. I'm just looking at the reality. And if this economy turns around as all of us hope it will, and there is some evidence it may be going in that direction now, and if your prices haven't come down in the last 3 years based upon that tremendous reduction in homebuilding, then in all likelihood when that demand begins to hit again your prices are going to go up. I just think we've got a growing consumer resistance here that we have to deal with in a way that tends to hold to a minimum those increases in prices down the road.

I certainly recognize the need for profit and all those other factors, but let me tell you, the timber people had it pretty good out my way in years past, not all of them, but certainly the efficient operators, until this terrible depression, and I'm not sure we're ever going to go back to homebuilding the way we had before. I think people in the timber industry think we're returning to the good old days when the interest rates are coming down, they're all sadly mistaken. We're going to have a whole new change in the home building business in this country.

So I'm only saying I think that if the industry cannot show some kind of consensus, unity, at this point, looking at the long term, not just the short term, I agree I don't want to do anything in this bill that's going to put the Pine States into the economic box that we're out there already and sacrifice your prosperity for our prosperity, that's not my intent. I think beyond that we have to look at the long term and not just this immediate problem. This immediate problem is very acute, but we still have to see what we do now does not have long-term, negative results in the industry or in the general homebuilding markets.

On page 9 of your testimony, I'm not sure I understand the statement, you say:

> Southern operators bid under transaction evidence appraisal system that does not respond favorably in falling markets. The more responsive residual value system used in the West has resulted in lower timber prices in the West than those other producers must pay in the South.

Why is that?

Mr. **Williams**. The transaction evidences an appraisal basis that is tied to the demand of timber, and not residual value of the products that come out. And consequently, in the South, they've got some factories in there that offset part of it, but in a down market many times the demand for the timber is still there, even though the prices of the products that you're getting out of the timber are way down and so this is a real squeeze that we got in there in our region, in region 8. Our appraisal prices have just, like in the last 30 days, started falling and then we exert a tremendous pressure to get that done. But our appraisal prices are off a very small percentage compared to what the appraisal prices are out of the west which are tied to the residual value, and we think that residual value is the way to go.

You've got to understand this is new to us, Senator.

When the Forest Service, when we agreed to do this we never in this world dreamed that we were going to have a depression on our hands like we have at the present time, and this transaction has only been in effect now about 3 years, so this is our first try at a down market and it was a disaster because we didn't get the relief. We've been fluttering out there in the wind now for a year with no relief. Our appraisals didn't go down, so hopefully, I think the Forest Service realized how critical it is in the South and they are making some adjustments that are helpful. That was inserted in there. You know, by January or February of this year the Forest Service made some short-term timber sales in the West to get some of the mills back to running that were about to go down and made some timber available at some prices that could be operated on in today's market.

In region 8 we did not and have not gotten any relief up until about the last 30 days. So we have a tremendous delay.

Let me clarify one thing. A while ago when I told you that pricing had not come down in the South on private, nonindustrial timber on any big percentage at all, I want to assure you that I wasn't referring to our finished products because they have fallen out of bed just like in the West. So we're taking some real shellackings just as the westerners are, and we're very sympathetic and we want to be a part of the solution to this.

STATEMENT OF G. ROBIN SWIFT, JR., PRESIDENT, SWIFT LUMBER CO., ATMORE, ALA.

Mr. SWIFT. My name is Robin Swift. I'm president of a family-owned independent lumber operation in Atmore, Ala. My company employees about 100 people and it's probably typical of many other independent southern lumber manufacturers.

In its 60 years of existence, my company has never bought a national forest sale. We own very little fee land, so nearly all of our raw materials are purchased from individuals, corporations, and State governments, whose sales to us are short term, paid for in cash, and nonterminable. So obviously, we don't have a direct ax to grind on the issue which is the subject of these hearings.

What we do have is a stake in the marketplace which, at this particular point in history, is severely depressed and which has forced hundreds of southern sawmills to close down or curtail their operations. While I respect Senator Hatfield's efforts to resolve the dilemma facing a large and important segment of the Nation's lumber industry, I am also concerned with the possible adverse effects of this legislation on my own company and region.

S. 2805 would authorize modifications in existing Federal timber contracts through terminations, extensions, and modifications of purchase price. I would like to comment on these in reverse order.

First, price modifications on rollbacks. I am totally opposed to this provision. It makes a mockery of the entire bid system. It offers price breaks and competitive advantages to Federal timber contract holders that are not available to the rest of us. It dips into the Treasury at a time when a major effort is being made to balance the budget.

Second, extensions. I have no great objection to extensions of inoperable contracts if some provision is made in the legislation to assure that Forest Service sales policy is changed so as not to cause great harm to those of us who operate on private timber. I will expand on this in the next section of my testimony.

Third, terminations. This is the one that causes most of us the most trouble. I am opposed to terminations as a matter of principle. A contract is a contract and those of us who do not buy Government timber will not be afforded the luxury of terminations of any high priced private contracts which we hold. However, since this subcommittee and the Congress as a whole may pass a termination provision, I would like to offer a few comments on how the marketing of this terminated timber and Forest Service timber in general affects my operation.

To put the problem in perspective, let's consider what has been going on in Forest Service Region 6, which includes Washington and Oregon. In the 1975-79 period, which were strong years for homebuilding, an average of 4.2 billion feet of timber per year were harvested in region 6. In the years 1980-81, the average was only 3.4 billion feet. Forest Service sales, in the meanwhile, have been running at much higher annual rates. The 1981 sales program totaled 5.5 billion feet. As a result, the volume of sold but uncut inventory in that region rose from 12.3 billion feet in 1975 to 16.3 billion feet in 1981. Now it's estimated that the total could go higher than 18 billion feet by the end of fiscal year 1982, as the result of selling more than is cut.

If you approve a bill to allow a large portion of this uncut inventory to be terminated, then you have solved the inventory problem. Meanwhile, however, the Forest Service is continuing with a plan to put 5.4 billion feet on the market in fiscal year 1983 in region 6, irrespective of the fact that only about a 3.5 billion foot market exists. This not only recreates the uncut inventory problem, but forcing 5.5 billion feet on a 3.5 billion foot market can only result in dramatically lower prices for federal timber. In fact, it has already happened in region 6. Bid prices have dropped from an average of almost $307 per thousand feet in calendar year 1980 to just over $62 per thousand in July, 1982. This kind of price drop in one area of the country where timber is owned largely by the Government and where Government sales dominate the market can only result in a tremendous competitive disadvantage to those of us who operate on private timber in areas where Government sales do not dominate. These Government sales become a subsidy to my competitors.

I have singled out region 6 only because of the magnitude of the problem there, where about half of the sold but uncut national forest inventory exists. Other Forest Service regions may have similar problems which, when considered nationwide, underscore the peril to the economy as a whole from the continued sale of timber in volumes far in excess of the ability of a static and depressed market to absorb.

In considering this termination legislation, I would hope that you will not only take into account the marketing of that timber that you allow to be terminated, but also the Forest Service sales program in general. Forest Service timber should not dominate the market nationwide. It should certainly represent a share of that market and surely there should be enough flexibility in the sales program to allow for high volumes in good housing years and lower volumes when the market is bad.

The kind of threat posed here for independent lumber companies in the South that run on private timber is really no different from the intolerable situation that has already been created by the massive invasion of U.S. markets by government-subsidized Canadian lumber.

The Southern Pine producing region is a long way from Canada. Yet, 2 years ago, almost 60 percent of the lumber consumed in Georgia and Florida came from Canada. The ratios were 40 percent in Virginia, 39 percent in North Carolina, and 37 percent in Tennessee.

Since then, the flooding of our home markets by Canadian lumber made from cheap Government stumpage has continued unabated. What it means is that we have been getting an even smaller share of a declining lumber market. If, on top of that, we should be faced in the South with the additional threat of lumber from other parts of the United States made from Federal timber, whose low prices are in effect subsidized, I don't see how very many companies like mine can survive.

Mr. Chairman, we have already done everything we know how to do in our company to insure our survival. What we don't need now is Government action that makes that survival less likely.

Thank you for the opportunity to testify.

STATEMENT OF W. H. HARRISON, VICE PRESIDENT, MILLWAY LUMBER CO., BRADLEY, S.C., REPRESENTING SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION, ACCOMPANIED BY ROBERT L. DAVIS, FORESTER, SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION, FOREST PARK, GA.

Mr. HARRISON. I'm W. H. Harrison, vice president and co-owner of Millway Lumber Co. of Bradley, S.C. We're a small lumber company in Piedmont, S.C. We have 55 employees. We produce about 7 million feet of lumber a year and we purchase timber from the national forest in our area.

I'm also here to represent Southeastern Lumber Manufacturers Association which is a group of small business lumber manufacturers, 396 members to be exact, in 12 States from Virginia to Texas. That association produces about 3 million board feet of timber annually.

About 45 percent of our members are reasonably close to national forests and are involved in the purchase of timber from the national forests. Bob Davis is here with me. He is the staff forester for the Southeastern Lumber Manufacturers Association. Both Bob and myself serve and represent our association on the National Federal Timber Purchasers Committee which is sponsored by National Forest Products Association.

In connection with that, we have served and worked with a good number, many of the members from the West who have testified here today. We have worked with them on some of these problems.

I'd like to go back just briefly. In midyear 1981, we all knew that the lumber industry was in trouble. We were in severe difficulty. Recovery was not in sight, and when you're in the lumber business in June and recovery is not in sight, you're in trouble for another 8 or 9 months at least, because it is a seasonal business.

We were buying timber in those circumstances under severely competitive conditions. People around us were bidding against us in every sale and it's really tough. We paid higher prices than we would have liked to have paid, but we have just had to work with those. We've lost a considerable amount of money as most other people have, but I don't know of any people around us that are going bankrupt because of this, although many of them have gone out of business. And certainly I would not say that there are not some, because of overbidding, might go bankrupt.

At any rate, in the fall of 1981, we heard talk again about contract relief for those people, particularly in the Northwest, who had serious difficulties. Two bills were introduced, we noticed, but no action was taken.

In January and February of 1982 we heard of more specific proposals and began to have some correspondence with some of those people that were involved in those proposals. In April 1982 we met with the National Federal Timber Purchasers Committee in San Francisco to consider some of the proposals that had been formed at that time.

In those proposals were some revisions that I felt southern industry might support, and some that they certainly would not support. And I tried to tell my cohorts from the West as closely as I felt I could, what their story was. At any rate, I requested at that time that the principle proponents of this legislation come to Atlanta and meet with a delegation of people from the entire southeastern industry, to explain their case, what the need was and the shape of the proposals, and this was done. A number of the people that have testified here today came to that meeting and it was well attended. There was in that meeting some sympathetic feeling in the South for the problem that exists in the Northwest. There was also some not so sympathetic feelings.

I suppose that's to be expected. However, in the succeeding weeks we received a constant procession of amendments, changes, and additions to the proposed legislation, a lot of which we had not had a chance to discuss and we didn't even understand the reasons for it.

Now in view of that, our group felt that they were forced to withdraw at that time any support and just wait and see what might be forthcoming. I believe that the present position in the South, there is a rather strong opposition to legislation and there is a marked lack of trust in the intent of some of the provisions that they have heard.

Now as others have done, I feel that I have to call to the attention of the committee any relief that comes, if it helps someone, is almost certain to hurt somebody else. I think as we've talked about it, and I've talked with my friends from the West about it, there probably isn't any good solution to this problem. But a solution is needed, and there are those of us that have tried to work with this thing from the beginning that believe that a solution is needed but it's going to be extremely difficult to find one.

The southern industry doesn't look forward, and these other speakers have said so, they do not look forward to Government-financed competition in the guise of relief for our unfortunate friends in the Northwest.

Putting people to work in the Northwest is one of the greatest objectives that anybody could have in this thing, but in the market situation that we have, if you put very many people back to work in the Northwest, you're going to put some out in the Southeast and we probably need to make that sacrifice to an extent, but we're not going to get the support of a lot of people in the South unless we can explain this thing very clearly.

Now my friend, Bud Johnson, for instance, said they have no intention—the southern market. The only trouble with that is that they don't know that they're invading the southern market. A man calls him to buy some lumber and he puts it on the car and ships it to Atlanta, and Bud doesn't have anything to do with where it's going. He's got to sell it. That's the same way we run our operation. And we don't ask the man whether he's going to send it to Oregon or not, we take the price that he offers. This is the reason that with the best of intentions in the world, that our friends in the Northwest can't guarantee that they're not going to give us a lot more competition.

Now that's well and good because we understand that. But it has got to be within reason because we're in trouble too.

In my home county in Greenwood, S.C., I just got the word Monday morning that 850 people lost their jobs, and there's about 25 or 30,000 people unemployed in Greenwood County and 850 people lost their jobs Monday morning. That's the textile industry. We have serious problems too.

Now our people believe, or if our people believe that the result of this legislation, no matter what the good parts are, is going to be an influx of western lumber into the South, they're going to oppose it with all their strength, and we've got to convince them that this is not the case.

Senator **Hatfield**. What do you think about Canadian lumber?

Mr. **Harrison**. I think it's terrible. And I think that is probably, you see, for your people to get healthy in the Northwest they're going to have to compete with Canadian lumber. There is no way they can do it otherwise. If they can compete with Canadian lumber, they can sell 40 percent of the lumber that is sold in South Carolina, and we're a timber-producing State.

The Canadians sold 55 percent of the lumber that was sold in Georgia last year, the biggest timber producing State; 55 percent of it came from Canada, of the lumber sold in the State of Georgia. Now if your people are going to get healthy, they're going to have to compete with that and that's a whole other story and efforts are being made to speak to that condition, Senator. And I didn't mean to cut you off, but I do feel very strongly on the subject.

If the proponents of the legislation and I probably should be counted among those, if they want southern support they're going to have to keep the legislation inside of what the southern people believe is reasonable within bounds. We don't want to cut your fire hose that you referred to this morning. That would be the last thing we would want to do because we work with these people for a long time. A lot of us have a good bit of confidence in them. But we can't commit our people to respond to blank check and at the present time we understand the Senator's legislation, the reason for the framework but we would be committing ourselves to a blank check if we committed to that.

We would want to point out the fact that termination of sales and adjustment of sales have a different effect in region 8 from what they have in region 6 or any other region and it's a very serious thing, the competitive relationship that will be set up in region 8 as a result of terminations. And the law will apply equally in both regions as we understand. This is going to be a serious thing that any southern delegation, particularly those that buy Federal timber, are going to have to resolve.

With these thoughts in mind, I would like to suggest some beliefs that we have about this legislation.

We frankly do not believe that any dates after October 1, 1981, should be considered for termination unjustly, and our reasoning is that as of that time, legislation was already on discussion for termination, and we frankly believe that is unethical. We do not believe that can be justified. We think that economic hardship needs explicit definition.

Losing money is not a hardship in the context of what we have now, but going bankrupt is.

I was interested in Senator Bumper's question of John Davis this morning, about how would you judge this, and I believe John came out with, well we would apply hardship to the industry as a whole. But what John described as the industry as a whole was in the West. And it does make a difference, Senator.

If we apply hardship to the industry as a whole and we included region 8 then the definition of economic hardship might be a bit different.

I don't have any good answer to that question. I simply point out the fact as we go by that, and I believe Senator Hatfield is aware if that phrase is used, it does need some rather close definition.

We frankly believe some figure like 25 percent for termination of sales would be a realistic figure. We believe when you terminate sales you ought to pay the cost of termination. We believe that a purchaser should not be eligible for repurchase of terminating contracts or timber involved in terminating contracts. We can't speak for what that means in Oregon, but we can certainly speak for what it means in South Carolina and Mississippi and Louisiana and Texas. It means bad business in that end. It means something that you can hardly support. It is a very different picture, and there will be some terminating sales in those regions. And if a man is able to buy a repurchased terminated sale, it's going to be very hard to explain that to the public, and certainly extremely hard to explain to the rest of our lumber industry.

We believe that adjustments, if they're necessary, and they probably are, possibly 25 percent of the contracts on hand would be available for adjustment. We question seriously to take the entire package of timber that people have bought in the last 5 years, or contracts that they might hold, and have special legislation to adjust all of those contracts, we seriously question this.

One of the things that gives us a great deal of pause about the figures that we've heard is that whereas stumpage figures of $500 are mentioned, we have good reason to believe that the actual applicable figure to lumber shipped is in the range of half of that figure. Now half of that figure is untenable as far as the manufacturer is concerned. On the other hand, if you apply half of that figure to all of these contracts, some of these sales are not necessarily unworkable.

Now we don't know what the figure is. We don't have the opportunity to buy timber sales in the West, so we don't know what the realization is, but we are reasonably certain that the lumber as related to timber is in the range of, well, in the range of 80 percent overrun. Somewhere close to 100 percent. Somewhere above 50 percent. We're reasonably sure that those are true figures. Therefore it's very difficult for us to go for 100 percent total adjustment of all sales between termination and adjustment.

Senator HATFIELD. I wonder if I could urge you to summarize your remaining remarks please.

Mr. HARRISON. We agree with Mr. Williams about region 6 and we understand the Senator's problem. We believe that purchasers who elect contract adjustment should operate these adjusted sales on a systematic basis. We don't believe that they ought to set them on the shelf for 5 years. We totally oppose a transfer of purchaser credit. We could speak to that in length. It will do serious damage to region 8.

Senator HATFIELD. That's not in the bill.

Mr. HARRISON. All right, we won't talk about it.

We have serious reservations about including terminated sales in the future, allowable cut. We understand why they say do that in region 6, but we tell you that it will do serious damage to us in the South. Senator, we are short on timber in the South.

I will conclude with one other point. I don't believe that this legislation ought to have a whole bunch of things that are not directly related to relief, but if Congress is going to consider relief legislation it also ought to look very hard at what got us into the situation we're in right now and it should begin to think about that to take measures to see that that doesn't happen again. And I'm particularly relating to Senator Hatfield's question about bidding practices this morning. We recommend, and our friends in the West are going to totally disagree with us, nevertheless, we recommend that we consider sealed bid sales for all Government timber sales. That all sales be on a lump sum basis, and we further suggest that Forest Service bill, all the permanent roads——

I'll be glad to answer any questions.

Senator BUMPERS. I just want to say, Mr. Chairman, that I have really been most impressed with all three of the statements. As a small businessman I have had to compete with co-ops right across the street that were not taxed and that had every kind of advantage under the Sun, so I especially sympathize with Mr. Swift's problem. I thought his statement was excellent. I think all three of these statements are excellent. We are in a real dilemma, and I know that Senator Hatfield, of course, has a slightly different problem than the rest of us. I try to empathize and understand it and I want to be helpful, but no matter what form this bill takes, it's going to be harmful to people like Mr. Swift, who doesn't buy Federal timber. He may have contracts with private persons for his timber over the next 3 or 4 years and there is no relief from those. You either go out of business or you pay for the timber, or you quit.

[The prepared statement of Mr. Harrison follows:]

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TESTIMONY OF
SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION
ON
S. 2805: The Termination, Extension, or Modification of
Federal Government Timber Sale Contracts
And
S. 2818: Timber Sale Contract Term Adjustments
Before The
SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER
Of The
SENATE ENERGY AND NATURAL RESOURCES COMMITTEE
in
Washington, D. C.
August 16 & 17, 1982

Mr. Chairman and Members of the Committee

I am Bill Harrison, Vice-president and co-owner of Millway Lumber Company, Bradley, South Carolina, a small business lumber manufacturer. Millway Lumber Company has 55 employees and processes approximately seven million board feet of lumber annually. Since my firm purchases national forest timber, I am concerned with the outcome of this legislation.

I am appearing today on behalf of the Southeastern Lumber Manufacturers Association, an organization of 396 small business lumber manufacturers located in twelve southern states. Our member mills collectively produce nearly three billion board feet of lumber annually and all are independently owned and operated. Approximately 45 percent of our members are in close proximity of a national forest and are dependent, to various degrees, upon the sale of national forest timber for the raw materials needed to operate their manufacturing facility.

With me today is Bob Davis, who serves as the Forester for the Southeastern Lumber Manufacturers Association. Together, we will be pleased to answer any questions at the end of this presentation.

BACKGROUND:

In June of 1981, many of us in the forest products industry in the South believed that the lumber industry was not yet on the way to recovery, and operated under that assumption. We continued to purchase timber sales, and some were purchased at a higher price than we would have liked. I do not know of any SLMA member that will go out of business if relief measures are not passed. Keep in mind that many of the mills who purchase national forest timber in Region 8 are as dependent on Forest Service timber as are mills in the Northwest.

Two extension policy relaxations were granted by the Forest Service because of the very dramatic downturn in the housing market. The first extension was given in April, 1980, and the second was granted in October of 1981.

During September, 1981, the first talk of contract relief for the Pacific Northwest was heard in the South. Price roll-back, termination without paying damages, and contract term adjustments were new terms with unclear meaning. By November, two bills had been introduced into the House: The Renewable Resources Emergency Act of 1981 and The Emergency Timber Sale Act of 1981. Both bills were very similar and allowed the termination of any timber contracts within a short period after enactment. To our knowledge no action was taken.

The next three to four months the industry spent most of its time working on a number of proposed Forest Service contract changes. Speculative bidding was the main reason cited for these changes. It was not until April 15, 1982 that the final changes were published. The lumber market was still unchanged.

During the latter part of April, 1982, the industry met in San Francisco, California to review contract relief proposals formulated by the Northwest timber purchasers. Concepts were presented at this meeting, some which I believed the southern industry would have supported and some I was sure they would not. Two weeks later, at my request, a delegation from the Pacific Northwest came to Atlanta, Georgia to explain the necessity of contract relief to the southern industry and what form this relief should take. May and June saw many meetings, compromises, additions, and more compromises. A proposed industry bill was drafted and an effort was made to include all of these additions and compromises.

The industry met again in July to review this draft legislation. This meeting was followed by more meetings which included proposals, counter proposals, and more compromises. That brings us up-to-date.

The Southeastern Lumber Manufacturers Association is opposed to S. 2805 and S. 2818. We believe these bills are too general and do not give the necessary limits to the authority which can be taken by the Secretaries.

Furthermore, we do not believe that any legislation providing for termination, term adjustments, or price modifications in timber sale contracts can be made equitable for purchasers in all regions. Moreover, if a simple solution cannot be derived that would be in the best interest of the industry and the federal government we believe that nothing should be done. If legislation is forthcoming the SLMA would request that the Committee consider the following comments and recommendations.

RECOMMENDATIONS:

1. We believe that anyone in the forest products industry should have been aware of the downturn in our markets, at the very latest, by June, 1981. As noted previously, contract relief legislation was being considered in November, 1981. For these reasons, we believe it would be unethical to grant relief measures on timber sales purchased after October 1, 1981.
2. Section 2 of S. 2805 reads, "Upon a showing of economic hardship by the private contracting party,..." If legislation is forthcoming, we believe that economic hardship must be shown. Guidelines should be incorporated in the legislation defining how hardship is to be determined.

3. The SLMA believes that no more than 25% of the volume held under contract as of October 1, 1981, should be considered for termination. The only exception should be if a purchaser desires to terminate one contract. One contract could be terminated no matter what the percentage of volume under contract. This would allow a purchaser with a large volume and many contracts to decide which of those, up to 25% of the volume, would best serve his firm if terminated. The purchaser who has only two or three contracts of which any one would equal more than the 25% limit would not be penalized. He could terminate one contract.
4. A purchaser who elects to terminate a contract should be liable for the total cost of reselling that contract. Furthermore, he should not be allowed to repurchase the timber in the contract he elected to terminate.
5. The SLMA believes that no more than 25% of the volume held under contract as of October 1, 1981, should be considered for contract term adjustment. Again, the exception should be to allow for a term adjustment on one contract.
6. Currently, the lumber manufacturers in the South are suffering from the importation of Canadian lumber which is being produced by an industry subsidized by the Canadian government. Data from the Council of Forest Industries of British Columbia (Canada) shows that 37% of the lumber sold in my state of South Carolina is from Canada. With very few exceptions, 30% of the lumber being sold in every southern state is from Canada. Markets normally enjoyed by manufacturers of southern pine in Delaware, Vermont, Pennsylvania, West Virginia, and other states are having over 75% of their lumber needs supplied by Canadian manufacturers. I point out these facts only to illustrate that the southern manufacturer cannot endure additional competition from regions benefiting from legislation as being proposed here today. The Pacific Northwest, Forest Service Region 6, is the area which will benefit the most from any forthcoming legislation. Because of this we request that any forthcoming legislation contain provisions which would provide for:

(a) A reduction of the Forest Service timber sale program in Region 6 for the next two years. During the industry discussions a proposal was made to place a "cap" on U. S. Forest Service sales in Region 6 of 4.1 billion board feet in the 1983 and 1984 program year. Also included was a clause that allowed the Secretary to revert to a normal sale program if housing starts reached or exceeded 1.6 million units on an annualized basis for three consecutive months.

(b) The purchaser of any contract granted a term adjustment would be required to systematically operate all contracts bid prior to October 1, 1981.

The intent of these provisions is to reduce the large volume under contract while at the same time not allowing the already depressed lumber market to become flooded with unneeded lumber.

7. Purchaser credit was an item discussed by the industry. In reading the report prepared by Robert E. Wolf, Assistant Chief of the Environment and Natural Resources Policy Division of the Library of Congress, we find an interesting point made concerning purchaser credit.

> "Timber contract termination for high bid sales is not a strong factor in areas where 'ineffective' purchaser road credit prevails; thus, the two legs of the proposal (the industry proposal) are to fashion something attractive to areas where termination would not be of significant value."

Wolfe states later in the report, "The proposal to make 'ineffective' purchaser credit for road construction a guaranteed subsidy for timber is totally irrelevant to the issue of the alleged current conditions of the industry." (underline added)

The industry proposal allowed for several changes in the purchaser credit policy. In addition to making "ineffective" purchaser credit "effective" it allowed the transfer of purchaser credit between national forests. To allow the transfer of purchaser credit between national forests gives those firms that operate in more than one forest a more favorable cash flow over those firms who operate in only one forest. Changing the definition of ineffective purchaser credit would give multi-forest firms an even greater cash flow advantage over single-forest firms, and reduce the amount of revenues received by the federal government for timber sales. The SLMA has and must remain against changing the current purchaser credit policy. We cannot support any legislation which would allow these changes.

CONCLUSION:

The Southeastern Lumber Manufacturers Association believes that Congress while examining means to relieve the distress of the timber industry in the Pacific Northwest should also consider actions to prevent a recurrence of this type situation. We have three suggestions which we believe could be very helpful in that area:

1.) Require sealed bids on all sales.

2.) Require that all sales be "lump sum."

3.) Have the U. S. Forest Service build its own permanent roads and eliminate purchaser credit. Purchasers would build temporary roads only as a part of their logging cost.

I thank you for the opportunity to present our views, and I will be glad to answer any questions you may have.

Senator **Bumpers**. What is the unemployment rate in the Southeastern part of the United States, Mr. Harrison, in the timber industry?

Mr. **Harrison**. I don't believe I could answer it. We have statistics on it.

Mr. **Davis**. The only thing I could speak to is to curtailments right now, and our reports from our members show that we are having curtailments averaging somewhere around 25 to 35 percent, depending on which week you look at.

Senator **Bumpers**. I wonder what it is in region 6.

Mr. **Swift**. The last figure given to me by Southern Forest Products Association was that the work force was down by one-third in the South.

Senator **Bumpers**. Do you have region 6?

Mr. **Swift**. No Sir.

Mr. **Williams**. Senator, let me make a point here, following along with what Mr. Swift, and he's one of my closest and dearest friends, and his credibility and integrity is absolutely unquestionable, but there's one thing that bothers me and this is the reason I think the South should strive to be a part of the solution. If in fact they have mass default, and I've talked to John Crowell several times, and I've talked to the Chief of the Forest Service, Max Peterson, and spent hours working on this thing. But if in fact they have mass defaults and they do have to go through the default procedure and dump all this additional timber back on the market and it's a very depressed market, you know, I swear to you the timber will sell for no more than salvage value and it will just further undercut in the South what we have worked to grow. I strongly urge that we work for a solution that will not overrun us in the South but at the same time it will give the westerners enough relief so they can survive also.

There is no more entrepreneur catwalk in the South than Harry Williams, you know that, but at the same time I understand if they have mass defaults in the West and it definitely will undercut the values of everything we have in the South. Besides, I'm sympathetic with the problem. I really would like to see them be able to get out of this thing with the shirt on their back. I would hope if I was in the same shape they'd feel the same way.

Senator **Hatfield**. The only thing in all this testimony that bothers me is Mr. Harrison's testimony when he says that anything you do to help the people in the West will hurt the people in the South. Now what you have to say then, if I understand that statement correctly, the more unemployment we have in the West the better it is for you in the South.

Mr. **Harrison**. No, sir. Senator, I've worked with the people from the West and been on these committees with them for 4 or 5 years and I have the deepest respect for them. In fact, I suppose I got started on this problem, well, in January of this year working with them. I was the one that asked them to bring it south and explain it to the people in the South and I have, in front of all of our people, supported the whole deal. But I'll tell you right now that there is not any good solution to this problem.

Senator **Hatfield**. No, but again, you said if you help the people in the West you'll hurt the people in the South.

Mr. HARRISON. What I really intended to say is any solution that helps somebody is going to hurt somebody else.

Senator HATFIELD. Really?

Mr. HARRISON. Yes; I feel that's what we're up against, because Senator, we are dealing with a market, they use the words elastic, and if we get the mills back to working order which is something to work for, where is the lumber going to go?

Senator HATFIELD. As I said earlier, I hoped that we could compete and take some of the Canadian market. And let me tell you, Mr. Harrison, we won't be in any position to compete with the Canadians or you or anybody else unless we get some help soon, and as I said earlier, you can't supply the demand down the road. So whatever you think is somebody being helped out there is going to hurt you, that's a very short range view. In the long term it's going to be helpful to you. It's going to be helpful to us, it's going to be helpful to the Nation. I would like to think the free enterprise system is something a little more than the idea of dog eat dog from the jungle that you described. If we're going to help somebody then it's going to hurt somebody else.

Mr. HARRISON. I didn't intend to take that position. As a matter of fact, the position that I have supported is that it was going to hurt and we should do it anyway. That's the position that I've taken all the way through this thing. That is honestly what I believe. I don't believe that you will be able to achieve a solution to this thing that provides anything other than getting the lumber market going without some give and take on both sides.

Senator HATFIELD. My purpose is to try to help everybody in this.

Senator BUMPERS. That figure you were asking for awhile ago is 45 percent. The total sawmill work force in our area is now out 29 percent in the total sawmill work in the Southern States. It's the Forest Service figures.

I've got a lot of good friends in southwest Arkansas that have already taken the "deep six." Some of them haven't taken bankruptcy, they've just simply had to quit. You know, even in volume you can't sell 2 by 4's for $250 or $200 when they cost you $250 and $300 to mill them.

There was one thing Mr. Swift said that I thought was relevant, Mr. Chairman. I think we might get the answer tomorrow. Is the Forest Service going to testify tomorrow?

Senator HATFIELD. Yes.

Senator BUMPERS. One of the relevant questions that we ought to put to them has been raised by Mr. Swift, and that is why, when there is absolutely no housing industry in this country, are increased amounts of timber put on the market. And in region 6 here, according to his testimony, the volumes of sold but uncut inventory in that region rose from 12.3 billion in 1965 to 16.3 billion in 1981. That can't help but have a devastating effect on prices, and it occurs to me that we might, if we pass this bill in whatever form, implore the Forest Service to cut back very dramatically on its sales. And the other thing is—maybe Harry brought this up before I got back to this meeting—whatever we decide to do here, we're going to allow 40-percent termination or maybe 25-percent termination. That has been suggested. It has also been suggested that timber be removed from the market for the forseeable future until we at least get a housing industry going.

Senator HATFIELD. Any further questions? If not, gentlemen, thank you.

I would like to invite now Mr. Rich Koven, Bill Coates, and Mr. Dale White.

Mr. Koven, we have your full statement, and if you could summarize your nine pages I would be very appreciative.

STATEMENT OF RICHARD KOVEN, COORDINATOR, NORTHWEST FOREST WORKERS ASSOCIATION, EUGENE, OREG.

Mr. KOVEN. My name is Richard Koven, I represent the Northwest Forest Workers Association. We're a federation of 16 workers' cooperatives located in Oregon, Washington, and Montana. Our people replant harvested sites and tend young stands of timber throughout the Western United States.

I am here representing the forest workers. We are not timber purchasers nor are we environmentalists. We're a labor group.

We have not seen eye to eye with the timber purchasing groups on the various proposals for timber sale modification. You understand it is they who hold the contracts. We understand that they are in trouble. We agree that purchasers need relief. However, the relief granted must be equitable. It must take into consideration the fact that timber purchasers are but one small constituency in the timber industry. Only one group among the great many affected by the timber sale policy. The purchasers hold the actual timber sale contracts. Yet, it can be argued that there is also an implied contract for the harvest of that timber with all the citizens of a timber-based economy. After all, we know 5 years in advance what levels of timber harvest to expect, because those levels are guaranteed by contract with the U.S. Government. We literally base our economic future, our livelihoods, on that guarantee.

When the logs stop rolling out of the forest, when the timber sale contract system breaks down, which it has, when the promise of normal harvest levels is broken, which it has been, wide spread economic disruption ensues in communities dependent upon the timber economy. This is the story in the Northwest today.

When the logs stop falling in the forests the mills shut down. But not only do millworkers lose their jobs, the loggers, the truckers, the tree planters, we all suffer. The whole service economy falters. School systems, county government, State government, are all brought to their fiscal knees.

My point is that we are all in trouble, not just the timber purchasers. We all need relief. Yet, you will not see us asking for relief for our workers. We will not be asking for upward modification of reforestation service contract prices, we will not be asking for terminations of our home mortgages. We will not be asking for 5-year extensions on our unemployment benefits.

Perhaps we will not ask because we don't have the audacity. More likely, however, we are not asking for Government to step in and cure every one of our symptomatic economic aches and pains because we understand that true relief will not come until the source of our economic problems is changed.

In the meantime, it does seem appropriate to focus relief efforts on timber sale contracts. These contracts are very much the key to our economic survival. In regards to the relief you grant on timber sale contracts, I ask only that whatever you do, don't make it worse for those of us who work in the woods. We are barely eeking out a living now. We project that next year's demand for reforestation services will be 40 percent of normal. But we can survive. We can ride this thing out if and only if Government does not deliver any further blows to our industry.

In that light, I ask you to examine the proposed legislation in regards to the balance of interests among those effected. In our minds, equitable relief is that which maximizes harvests while minimizing unbearable hardships on the purchasers. Look at each component measure in the bill and ask "does this maximize harvest," because maximum harvest means maximum employment and maximum flow of revenue to Federal, State and local government.

Specifically to the bill: We strongly endorse the opening sentence of section 2 which calls for a showing of economic hardship, any relief not requiring such proof of need would clearly be a give away program. It would be a wholesale bailout, a direct subsidy of the industry paid for by our unemployment and at great cost to the taxpayers. Let the record show that legislative intent is strong on this point. Only those purchasers truly in need, and only those sales which are truly inoperable should be granted relief.

We also strongly endorse the concept of purchase price modification. Clearly this is the fastest, the most effective way to put the industry back on its feet. if you do nothing else, lower the prices, because that will get us back to work.

On contract terminations: We support them reluctantly, with grave reservations, and not without strong qualifications. Terminations are the most radical form of relief proposed. The limitation placed on terminations should be severe. Contracts should only be terminated if they are wildly overpriced, if the purchaser is in an intolerable financial position. The gross numbers and volume percentage of sales terminated should be limited as much as possible. Most importantly, the timber involved in terminated contracts should be immediate, and completely be resold on the market. If it is not, you will have effectively stolen all the jobs and all the revenue associated with that timber from the present and deferred that wealth to a long term and quite uncertain future.

Extension of timber sale contract deadlines is bad public policy. The best action you could take in the interest of those of us who work in the woods is to remove the extension proposal from consideration. Extensions are both unnecessary and unbearable.

The only good argument I have ever heard in favor of extensions is that they give us breathing room, some time to sort things out. However, we already have 2-year extensions in place. We have already had the time to sort things out.

If Congress passes this legislation, with contract price modification and contract termination, then we don't need any more extensions. You cannot extend a terminated contract and it would be scandalous to allow extensions on contracts whose price has been adjusted. The inclusion of extensions in this legislation is a hedging of bets. Extensions would say that we do not believe the legislation as a whole is going to work.

What is wrong with extensions is that they are a real disincentive to logging. This is exactly what we do not need. Extensions have a tendency to lock the woods up and put our industry on ice.

Extensions are nothing less than the public subsidy of standing timber inventories held by private companies. This subsidy is paid for with our loss of jobs and with the loss of revenue to the Government. I want to impress upon you that with every sale you allow to be extended, you are also extending the misery of unemployment for loggers, tree planters, truckers, and mill workers. You could do nothing worse for labor, than to extend timber sale contracts.

It is contended that extended contracts will be harvested as soon as they are operable, and that in the meantime extended sales will be replaced by operable short-term sales. This is the so-called blending theory. I don't buy it. The problem with blending is that it is fraught with unsubstantiated contentions, with threats, and with promises. Purchasers are contending that virtually all of the sales are inoperable. They are threatening to default on those contracts. They are promising to harvest extended contracts as soon as possible. These are the same companies that promised to harvest billions of dollars of timber at prices contracted for. Now, we find that they are not inclined to keep those promises. Why should we believe that their behavior will change in the future?

Extensions, when blended with terminations and price adjustments put industry in an unprecedented position. In this position, industry will be able to precisely determine when, where, and at what price to harvest timber. This represents incredible economic control. This control will be used, of course to maximize industry profits. It leaves labor and government in a very vulnerable position. We only have their promise that our interests will be considered.

By law, extensions are only to be granted when they are in the "substantial overriding public interest." They are not. They are not in the interest of labor or government and, in fact, are merely in the interests of a small segment of timber purchasers. Extensions are bad public policy. They put all our problems out in front of us, and not behind us where we want them.

I appreciate this opportunity to bring this messege from the woods workers in the Northwest. We ask only that we provide our industry with truly equitable relief and we ask that you do what you can to get our timber harvested so we can get back to work replanting the forest.

Thank you.

[The prepared statement of Mr. Koven follows:]

NORTHWEST FOREST WORKERS ASSOCIATION
795 Willamette Street/#314
Eugene, Oregon 97401

Statement of Richard Koven
Northwest Forest Workers Association

My name is Richard Koven. I represent the Northwest Forest Workers Association. We are a federation of sixteen workers' cooperatives located in Oregon, Washington, and Montana, with 800 individual members. We are in the business of contracting forest management services principally with the United States government. Our people replant harvested sites and tend young stands of timber throughout the Western United States.

I am here today representing forest workers. We are not timber purchasers, nor are we environmentalists. We are a labor group.

Our association has been intensely involved in the debate over timber sale policy during the past year. We have actively opposed the extension of timber sale contracts. We have worked closely with the major labor unions of the Northwest, with representatives of local government, with conservation groups and other concerned parties to insure full public disclosure and debate on this important issue.

We have not, frankly, seen eye to eye with the timber purchasing groups on these various proposals for timber sale modification. We understand that it is they who hold the contracts. We understand that they are in trouble. We agree that the purchasers need relief. However the relief granted must be equitable. It must take into consideration the fact that timber purchasers are but one small constituency in the timber industry, only one group among the great many affected by timber sale policy.

The purchasers hold the actual timber sale contracts. Yet, it can be argued that there is also an implied contract for the harvest of that timber with all the citizens of a timber-based economy. After all, we know five years in advance what levels of timber harvest to expect, becuase those levels are guaranteed by contract with the United States government. We literally base our economic future, our livelihoods, on that guarantee.

When the logs stop rolling out of the forest, when the timber sale contract system breaks down -- which it has -- when the promise of normal harvest levels is broken -- which it has been, wide spread economic disruption ensues in communities dependent upon the timber economy. This is the story of the Northwest today.

When the logs stop falling in the forests the mills shut down. But not only do mill workers lose their jobs, the loggers, the truckers, the treeplanters -- we all suffer. The whole service economy falters. School systems, county government, state government, are all brought to their fiscal knees.

My point is that we are all in trouble -- not just the timber purchasers. We all need relief. Yet, you will not see us asking for relief for our workers. We will not be asking for upward modification of reforestation service contract prices, we will not be asking for terminations of our home mortgages. We will not be asking for five year extensions on our unemployment benefits.

Perhaps we will not ask because we don't have the audacity. More likely, however, we are not asking for government to step in and cure every one of our symptomatic economic aches and pains because we understand that true relief will not come until the source of our economic problems is changed. We recognize that true relief for woods workers will not come until the economy turns around, until interest rates fall, until housing starts increase, and the woods products industry is back on its feet.

In the meantime, it does seem appropriate to focus relief efforts on timber sale contracts. These contracts are very much the key to our economic survival. In regards to the relief you grant on timber sale contracts, I ask only that whatever you do, don't make it worse for those of us who work in the woods. We are barely eking out a living now. We project that next year's demand for reforestation services will be 40% of normal. But we can survive. We can ride this thing out if and only if government does not deliver any further blows to our industry.

In that light, I ask you to examine the proposed legislation in regards to the balance of interests among those effected. In our minds, equitable relief is that which maximizes harvests while minimizing unbearable hardships on the purchasers. Look at each component measure in the bill and ask "does this maximize harvest," because maximum harvest means maximum employment and maximum flow of revenue to federal state and local government.

Specifically to the bill:

We strongly endorse the opening sentence of Section 2 which calls for a showing of economic hardship. Any relief not requiring such proof of need would clearly be a give away program. It would be a wholesale bailout, a direct subsidy of the industry paid for by our unemployment and at great cost to the taxpayers. Let the record show that legislative intent is strong on this point. Only those purchasers truly in need, and only those sales which are truly inoperable should be granted relief.

We also strongly endorse the concept of purchase price modification. Clearly this is the fastest, the most effective way to put the industry back on its feet. If you do nothing else, lower the prices, because that will get us back to work. It is my understanding in talking with the union people, that price modification is the unanimously favored form of relief for those of us on the labor side of this industry.

On contract terminations: We support them reluctantly, with grave reservations, and not without strong qualifications. Terminations are the most radical form of relief proposed. The limitation placed on terminations should be severe. Contracts should only be terminated if they are wildly overpriced, if the purchaser is in an intolerable financial position. The gross numbers and volume percentage of sales terminated should be limited as much as possible. Most importantly, the timber involved in terminated contracts should immediately, and completely be resold on the market. If it is not, you will have effectively stolen all the jobs and all the revenues associated with that timber from the present and deferred that wealth to a long-term and quite uncertain future. Terminations are a radical intervention on the part of government into the marketplace. Contract terminations should be a last resort.

Extension of timber sale contract deadlines is bad public policy. The best action you could take in the interest of those of us who work in the woods is to remove the extension proposal from consideration. Extensions are both unnecessary and unbearable.

The only good argument I have ever heard in favor of extensions is that they give us breathing room -- some time to sort things out. However, we already have two year extensions in place. We have already had the time to sort things out.

The two year extensions provided us with the time to deal with the industry's problem. That is why we are here today. If Congress passes this legislation, with contract price modification and contract termination, then we don't need anymore extensions. You cannot extend a terminated contract and it would be scandalous to allow extensions on contracts whose price has been adjusted. The inclusion of extensions in this legislation is a hedging of bets. Extensions would say that we do not believe the legislation as a whole is going to work.

What is wrong with extensions is that they are a real disincentive to logging. This is exactly what we do not need. Extensions have a tendency to lock the woods up and put our industry on ice.

Extensions are nothing less than the public subsidy of standing timber inventories held by private companies. This subsidy is paid for with our loss of jobs and with the loss of revenue to government. I want to impress upon you that with every sale you allow to be extended, you are also extending the misery of unemployment for loggers, tree planters, truckers, and mill workers. You could do nothing worse for labor, then to extend timber sale contracts.

It is contended that extended contracts will be harvested as soon as they are operable, and that in the meantime extended sales will be replaced by operable short term sales. This is the so-called "blending" theory. I don't buy it. The problem with "blending" is that it is frought with unsubstantiated contention, with threats, and with promises. Purchasers are contending that virtually all of the sales are inoperable. They are threatening to default on those contracts. They are promising to harvest extended contracts as soon as possible. These are the same companies that promised to harvest billions of dollars of timber at prices contracted for. Now, we find that they are not inclined to keep those promises. Why should we believe that their behavior will change in the future?

Extensions, when blended with terminations and price adjustments put industry in an unprecedented position. In this position, industry will be able to precisely determine when, where, and at what price to harvest timber. This represents incredible economic control. This control will be used, of course, to maximize industry profits. It leaves labor and government in a very vulnerable position. We only have their promise that our interests will be considered.

By law, extensions are only to be granted when they are in the "substantial overriding public interest." They are not. They are not in the interest of labor or government and, in fact, are merely in the interests of a small segment of timber purchasers. Extensions are bad public policy. They put all our problems out in front of us, and not behind us where we to want them.

Finally, I would like to outline briefly three positive steps that Congress might take to improve present and future conditions in the timber industry.

I think a need has been demonstrated for Congress to examine the fundamentals of how the government sells timber. At the heart of our problem may be the fact that the government is selling long-term futures, and as it seems to be turning out, only options on timber. After this mess is finally sorted out, we may find that the public interest is best served by selling logs at auction, and not by uncertain timber futures.

Congress should give strong support in the FY 83 budget for the short-term timber sale program and the small salvage sale program. Both of these programs are expedient and viable options for keeping our mills operating and our people working. I ask for your support in this matter because it is my understanding that the Forest Service is experiencing funding shortfalls for the administration of these programs. It would seem unfortunate if we underfund these programs when they cost so little to operate and bring such sorely needed economic benefits to both industry and government.

Finally, we ask your support for a generous forest management budget for the Forest Service in F.Y.83. We desperately need these jobs. I ask for your support on this matter.

In conclusion, I appreciate the opportunity to bring a message from Oregon, a message from the woods workers. We ask only that you provide our industry with truly equitable relief. We ask that you do what you can to get our timber harvested so we can get back to work replanting the forests. THANK YOU.

STATEMENT OF BILL COATES, CHAIRMAN, BOARD OF COUNTY SUPERVISORS, PLUMAS COUNTY, CALIF.

Mr. Coates. Thank you, Mr. Chairman. I'm Bill Coates, chairman of the Board of County Supervisors, Plumas County. Plumas County is located about 80 miles north of Lake Tahoe and 81 percent of our county is National Forest Service land. Plumas County normally ranks No. 3 in timber production in California.

Our county is currently staggering under the threat of bankruptcies and layoffs due to the seemingly inevitable economic collapse of the timber industry. Disruption of county funds has already begun and the community stability of 40 to 80 towns in the Sierra Nevada Mountains in the Central Valley, along the California Coastal Range, and in the Siskiyou Mountains is now in serious jeopardy.

For the past year and a half many northern and central California counties have been waiting for congressional relief and leadership in revitalizing, through modification or termination, a bidding level which will push many timber companies into bankruptcy if it isn't changed.

We haven't felt that it is in the best national interest or in the southern interest or in the labor interest to flatten the vital timber industry, which is necessary in helping to sustain needed flow of income to the Federal Treasury and to units of local government. It also provides the main source of employment to many rural areas, and its health will be critical in the future as we struggle to rebuild the Nation's depleted housing supply.

In Plumas County, the U.S. Forest Service has predicted our Forest Reserve revenue for the 1982–83 year at $1,500,000. This is a drop of almost two-thirds from what we have been averaging over the last 10 years, even before adjusting for inflation. So basically we're losing about 60 percent of our revenue from the forest reserve.

How does this hurt? Aside from the 14- to 30-percent unemployment rate forshadowed by the U.S. Forest Service estimate and of course the rate is much higher than that inside just the logging community. Aside from that unemployment rate which we've been struggling with for the last 14 months, this decrease occurs in revenue which finances about two-thirds of our road system and about one-fifth of our school system.

Our situation is not unique. As many as 15 or 20 other California counties may have similar problems. All of us are additionally concerned about unemployment benefits running out which will cause people sincerely interested in working to have to seek general relief money from the counties, money that we don't have.

Some might ask, "Why are the counties willing to see contracts reduced in value which they will receive 25 percent off?" Aside from the fact that if the timber industry is flattened, the counties and the communities will be also. Most of us realize that 100 percent of nothing is nothing. And I'd like to reemphasize that; 100 percent of nothing is nothing. The Federal Government should also look at it that way.

Most of us would rather see realistic bid prices which are a true reflection of the market value so that there is an orderly flow of timber in the market place, stabilizing our employment and our income base. A quick survey by telephone of the officers of the rural counties of California revealed distinct and urgent support for the efforts of Senators Hatfield and McClure for bidding relief legislation.

Some might ask, "Why are the counties so pessimistic about the current future of the timber industry?" All of us in the timber producing counties of California have examples of mills closed down and men out of work, of schools in trouble and of families on welfare that want to keep working. The study by George Craig, a registered professional forester, discovered that recovery is not just around the corner. According to his study, return in the marketplace to the most optimistic market prices will still not allow the average efficiency operator to operate in the black. With the average operating cost of $295 per thousand board feet and average stumpage charges of $22 per thousand feet, which is prevailing in northern California right now, many of us feel that even a substantial drop in the interest rates will not make it possible to harvest sales previously bid in 1982.

Some might ask, "Why not ask the weaker mills and much of the industry to collapse so that after resurrection and reconstruction we have a stronger and wiser industry?" And we heard a few people say that today. I believe that this reconstruction in the industry would tend to concentrate power in only the largest corporations, perhaps weakening what is now a very competitive and comparatively nonconsolidated industry. That kind of result would not benefit the Southern States, the southern counties, or the Federal Government or the national interest. The counties and communites affected by this chaotic transition would have a tough time maintaining the road and school systems which complement the national forests. The overall road network is a key to public use.

The harvesting of timber and the overall management of the other resources of the forests. The school system supplies a vital support system to those who work in and manage the national forest lands and rural education is more expensive due to distances and climates.

Pertaining to current proposals, I believe that contract term extensions and contract term adjustments, without additional provisions will only add to the uncertainties, and delays to resolutions of what to do with the many Federal timber sales that are now under contract, but are inoperable currently and will remain so in the future.

The best suggestion for survival until the market rebounds is for the allowance of contract termination of adjustment, and if this occurs for only some contracts, then the remaining contracts would need to be extended so that their negative profit impact could be mixed with new contracts.

In conclusion, I would like to ask for leadership in this critical area from Congress. Help us to keep our counties and communities functioning, and our people working.

I would enjoy answering any questions you may wish to ask.

I have one additional comment, Senator, from testimony that I heard today. One point that's been missed by some of the testimony is that the reason there were more sales in the West had partially to do with the drought that we had back there which caused us to go in and have to on an emergency basis, get out the timber that had bad bug infestation. We were responding to a need to save a lot of timber and consequently slowed down the harvesting of other more normal sales. And I think the Forest Service has to plan the sales many years in advance.

As far as this comment about economic hardship, I think that waiting until a company has filed for bankruptcy would be like trying to fix something after the damage has been done. Also, I'm a little worried about how you improve something like that. It would take a building about this big full of people to try to figure out which ones were in economic hardship. I would suggest also that we don't want to start helping just the weakest of our companies and bringing the strongest ones down to the level of their weakest link. I don't think that's good economic policy. It would just tend to hurt the entire industry. I'd like to see it done on some kind of regional basis where perhaps some neutral agency can determine what's going on in a region and perhaps respond to that problem.

I'm sorry that Senator Bumpers left. He mentioned something about small business. I'm a small businessman myself. If one of these mills goes under it affects anywhere from 6 to 30 small businesses, none of which had anything to do with the bids.

As far as the results of teaching the industry a lesson, I just think that would cause many small businesses to go under. And after reconstruction, the Southern States would only have to contend with larger companies of vaster resources and in the South here, you've got 55 percent of the Canadian or the Georgia lumber market dominated by the Canadians, then I thought your comments about competing with the Canadians is very appropos. And certainly in the South they've got a much bigger problem with the Canadian industry than they do in the West.

Many of our companies haven't shipped any lumber west of the Mississippi for years, and we weren't doing that before the current problems.

Senator HATFIELD. Thank you very much, Mr. Coates.

I have no questions but I want to express my appreciation for taking the time and the effort to come here to offer your testimony.

We will now stand in recess until 2 o'clock tomorrow afternoon in the same room.

[Whereupon, at 3:45 p.m. the hearing was recessed, to reconvene, Tuesday, August 17, 1982, at 2 p.m.]

ADJUSTMENTS TO TIMBER SALE CONTRACTS ON NATIONAL FOREST SYSTEM LANDS AND PUBLIC LANDS

TUESDAY, AUGUST 17, 1982

U.S. Senate,
Subcommittee on Public Lands and Reserved Water,
Committee on Energy and Natural Resources,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:20 p.m., in room 3110 Dirksen Office Building, Hon. James A. McClure, chairman, presiding.

Present: Senators McClure, Hatfield, Murkowski, and Melcher.

Also present: Tony Bevinetto, professional staff member; and Thomas B. Williams, professional staff member for the minority.

OPENING STATEMENT OF HON. JAMES A. McCLURE, A U.S. SENATOR FROM THE STATE OF IDAHO

The Chairman. The committee will come to order. I suspect there may be some who wonder why the delay in starting. First of all, we are closing a gymnasium and refusing to open another. There are important matters to come before the Senate. And, second, there is some confusion as to whether or not we have permission to sit for the hearing this afternoon and we are trying to straighten that out.

As some people would know, when the Senate is in session it requires the permission of the Senate for a committee to sit and conduct business. So I am going to take a calculated risk at this point, because we do have a long witness list and because of the severity of the issue and the necessity to come to some resolution of it and starting the hearing in the hopes that other matter will be resolved.

As you know the Subcommittee on Public Lands and Reserved Water will hear testimony again today on S. 2805, to provide for the orderly termination, extension or modification of certain contracts for the sale of Federal timber and for other purposes; and S. 2818 to authorize the Secretary of Agriculture for national forest system lands and the Secretary of the Interior for public lands to adjust the termination date of certain contracts for the sale of timber from national forest system lands and public lands.

We will also receive testimony on other legislative concepts which would address the problems of the timber industry.

The hearings before this subcommittee yesterday and today, along with those held in the Subcommittee on Forests, Family

Farms and Energy of the House Agriculture Committee and in the Senate Agriculture Committee will provide a full and complete record on the entire problem.

I want to thank the chairman of the House Subcommittee on Forests, Family Farms and Energy for scheduling and completing hearings in that body to accommodate witnesses and others who wished to attend all of the hearings today.

Many of you have traveled long distances to testify here and in the House. We have a full witness list and I would ask all of you to summarize your written statements and to emphasize in your oral statements the points that seem to you to be the most pertinent points.

We are going to try to complete the witness list today.

The hearing record will remain open for 10 days, but I would urge those who have testimony yet to come to provide it at the earliest possible time. There are not many legislative days left in this Congress. If we are going to take any kind of legislative action, we would like to have the benefit of your advice and your opinion before taking that action.

I will expedite matters with only a very brief reference to the fact this is a very severe problem for my State as well as for other States that have been identified. I think Senator Hatfield yesterday was remarking about the problems in Oregon and Washington.

He and I have discussed in the past the problems that we have in Idaho where 40 percent of our mills are down and the impact that has upon not just the families of the workers involved but upon the entire community where they face the loss of the revenue base that sustains their schools and county governments.

So it is a very important problem that we are facing and I don't think contract termination by itself will provide any relief for that segment of the industry.

Senator Symms, my colleague from Idaho, is present and I would like to recognize him at the outset of this hearing. Steve, you are always welcome before this committee and you may proceed.

STATEMENT OF HON. STEVEN D. SYMMS, A U.S. SENATOR FROM THE STATE OF IDAHO

Senator SYMMS. Thank you very much, Mr. Chairman, and I will be very brief and I only come here and I appreciate the opportunity to address some of this legislation to provide some form of contract relief to this Nation's beleaguered timber industry.

As you know I have discussed this with you at great length and with our other colleagues but I have not been too much out in front, because we have had very able leadership on your part in this committee and the others on the committee and I felt that it was not necessary that I become publicly involved necessarily in the issue up until now.

But I would like to come before the committee and I appreciate the chance to be able to participate as this legislation moves through the committee and eventually possibly through the Senate itself.

Of course, the real issue that prompted this legislation is centered around the depressed housing industry, which for better or for worse, is the lifeblood of our timber producers and purchasers. The housing industry is the major contributor to our floundering gross national product and it is a significant determinant of our Nation's economic health.

We are currently grappling with the long-term solutions to these problems and to reduce Federal spending and the alarming growth rate of Federal borrowing that has so restricted credit and driven interest rates up so high. Only in this way will Congress take a giant step to relieve the overall long-term economic pressures on our timber industry as a whole.

Each of the efforts being considered today by this committee, however, is a sincere effort to alleviate some of those pressures in the short term, to provide some relief to the timber industry now before the timber companies in the Northwest fall victim to widespread bankruptcies and default.

Many of the small timber companies in our State of Idaho are concerned that S. 2805, which is sponsored by the distinguished Senator from Oregon, Mr. Hatfield, will provide contract relief for western Oregon at their expense. These inland mills tell me that unless some form of purchaser credit is added to the bill that it cannot equitably extend a hand to those who contract to harvest Federal timber.

On the other hand, I am told that our good friend from Arkansas who sits on this committee will not support a bill with purchaser credits and that that approach is also opposed by counties and environmentalists in the southern timber industry and others. My goal as I review these actions of this committee will be to come as close to a national equity as is humanly possible with this legislation, which is addressed to aid those who harvest Federal timber.

Consequently, as sympathetic as I am to the current plight faced by the timber industry in western Oregon, I cannot support legislation that benefits them at the expense of the inland timber industry. We all can agree that the short-term legislative relief may be necessary to avert a financial disaster in the timber industry. A solution must be reached, nonetheless, that will extend relief without inflicting injury or a competitive disadvantage to other segments of the timber industry.

And with that, Mr. Chairman, I would hope to be able to offer my support and assistance to some sort of a solution to this problem but to just let it be known very clearly that there is no way in my view that the inland forest product industry and the men and women who work for them could in any way accept some kind of a termination of contract when we have so many mills that the timber purchases we make are in deficit because of the high cost of road construction.

So without some type of purchaser credit or some compensation for that or more money in the Federal budget, which is already strained to build more roads on Federal land, I see no way that the inland mills could support this. And I could certainly not accept the Hatfield legislation as it is now written and I think there are mills also in eastern Oregon that would have a very difficult time in the inland part of accepting this legislation.

Thank you very much.

[The prepared statement of Senator Symms follows:]

STATEMENT OF HON. STEVE SYMMS, A U.S. SENATOR FROM THE STATE OF IDAHO

Mr. Chairman, I appreciate this opportunity to address legislation to provide some form of contract relief to this nation's beleaguered timber industry. Although I am new to this particular debate that is the subject of these hearings, these issues are not new to me, and I look forward to participating in the progress of this legislation as it moves through this Committee and evenutually through the Senate itself.

Of course the real issues that have prompted this legislation center around the depressed housing industry, which, for better or for worse, is the lifeblood of our timber producers and purchasers. The housing industry is a major contributor to our floundering Gross National Product, and its health is a significant determinant of our nation's economic health. We are currently grappling with the long-term solutions to these problems, to reduce federal spending and the alarming growth in federal borrowing that has so constricted credit and driven interest rates so high. Only in this way will Congress take a giant step to relieve the overall long-term economic pressures on our timber industry as a whole.

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My goal, as I review the actions of this Committee, will be to come as close to a national equity as is humanly possible with this legislation, which is addressed to aid those who harvest federal timber. Consequently, as sympathetic as I am to the current plight faced by the timber industry in western Oregon, I cannot support legislation that benefits them at the expense of the inland timber industry. We all can agree that short term legislative relief may be necessary to avert a financial disaster in the timber industry. A solution must be reached, nonetheless, that will extend that relief without inflicting injury or a competitive disadvantage to other segments of the timber industry, and I intend to follow closely the progress of this legislation and to participate in its content and progress through Congress.

The CHAIRMAN. Thank you very much. I appreciate your statement here today. And as you indicated earlier, we have been in discussion for the last several weeks and months trying to find a resolution to the problem.

It is not just the question of rescuing a portion of the industry or assisting them, it is a question of how to do that without sacrificing other elements of the timber industry. At one time I thought we were very close to an agreement that would accomplish all of those goals, but the compromise which was tentatively worked out, seems to have fallen apart, I hope maybe we can get back to something like that compromise.

But there are people outside of the timber industry who do not care about the timber industry and do not have the same concerns about the community and the people who are involved in it, who would just as soon see them sacrificed.

Senator SYMMS. Mr. Chairman, I would just say in closing that I don't think you can address this question right now before a long-term solution. I think that we have gotten on a very, very bad tract with the question of timber sales when we try to make the cost of the price of the timber completely pay for the price of the road and then we allow the Federal Government to set the standards and specifications for the road, so we have literally built gold-plated highways into the national forest system that are used for many,

many facets of public access, for sportsmen, for all different kinds of recreational values, fire fighting and others, but the timber is expected to pay, the first harvest of timber, I should say, is expected to carry the entire cost of the road.

And because of that, it has led to a situation where I think we have poorer timber management than we could otherwise have, because we don't have access to the national forest and they are always cutting off the face of the forest, so to speak. And I think this question that you are faced with is a dilemma that has been brought about by a policy that was bad in the first place, and that is to try to put this cost on the roads, all on timber and it is an unfair allocation, in my opinion.

Thank you very much.

The CHAIRMAN. Thank you very much, Steve. I appreciate your testimony here today and the support on the general problem that does confront the inland forest industry.

Senator Murkowski.

STATEMENT OF HON. FRANK H. MURKOWSKI, A U.S. SENATOR FROM THE STATE OF ALASKA

Senator MURKOWSKI. Thank you, Mr. Chairman. I would first like to thank you for providing me the opportunity to discuss an issue that is of major concern to me and certainly my constituents.

The health of the timber industry is a reflection of the health of our Nation's economy. The sound recovery in the timber industry will indicate increases in housing starts and brighten the picture for our overall economic recovery. The timber industry is one of the cornerstones of our industrial base and we, of course, should move quickly to shore up the foundation.

I have cosponsored the legislation offered by both Senator McClure, our chairman, and Senator Hatfield, because I feel that strongly that the Congress must address this pressing problem now. Members of the timber industry from my State of Alaska contacted me regarding both bills. Either bill addresses certain aspects of the overall problem.

I am anxious to consider both proposals and I look forward to hearing the views of the witnesses and how Congress can best address the situation. I expect there will be a combination perhaps of both bills and proposals that we have not yet heard from.

These bills are a reflection of what I believe is an even larger problem. I believe we should at some time in the future look at the issue of this country's policies toward our timber industry, timber marketing and most of all our timber management practices.

I have raised the issue of the timber appraisal system and timber contracts of the U.S. Forest Service when they have testified before this committee. The timber industry in our United States pay for the logs it utilizes from the national forest in the form of an appraised price of the standing log.

In Alaska, the Forest Service uses a residual price index to determine the price. This means the service must look at the end product. In Alaska's case it is cants, finished saw logs, chips or pulp and then subtracts the manufacturing cost and transportation cost, logging fees, road building fees, et cetera. The collection of these costs takes one-quarter in a year I am told by the forest service. That data is then used to calculate the next term for salvage price and then it may be several months before the first log comes out of the woods.

The price of that log could be determined on data that is a reflection of market conditions 6 months prior to the contract.

On the other hand, the Candian Government determines its stumpage price on a monthly basis. In addition, they can modify the price of logs repeatedly prior to the log being cut for pulp. The Canadian system provides the Canadian Government and the Canadian timber industry an opportunity to respond almost immediately to changing market conditions and prices.

This means the Canadian industry is paying the real cost of those logs at market. This system might eliminate some of the gambling aspects our industry now encounters with our timber price system contract.

It is inconceivable to me, Mr. Chairman, why our policies cannot be more reflective of the economic swings that are occurring in our market from time to time and the Canadians have certainly done it.

Let me just cite two examples that I have been given. In Delaware the Canadian timber industry has captured 84 percent of the timber market in that State, 52 percent of the timber market in Georgia is now supplied by Canadian timber.

Members of this committee from the Pacific Northwest can perhaps speak better of the issue of the Canadian displacement of the American domestic timber market. The fact remains in this declining time, there is a higher proportional market share of Canadian timber than there was before.

Mr. Chairman, I believe the proposals before us are part of the solution to the critical problems now facing our timber industry. I commend you, Mr. Chairman, for scheduling these hearings and I compliment both you and Senator Hatfield for showing the leader in this area.

The committee should consider timber payment schedules in exchange of purchaser credits as part of the proposals and I would hope to learn more of the suggested solutions from the witnesses that will testify today.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Melcher occupies the unique position of being both on this committee and the Agriculture Committee but also has jurisdiction over the Forest Service management practices and I note he has participated in the hearings before that committee and I appreciate his interest and attention to this matter here today as well as his interest in the subject.

Senator Melcher.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator MELCHER. Thank you very much, Mr. Chairman. I sat through most of the hearings, or read the testimony that I was not physically able to be present, by the witnesses before the Senate Agriculture Committee on Senator Hatfield's bill, S. 2805.

I realize the need for prompt action this year. Your bill, Mr. Chairman, S. 2818 and S. 2805 of Senator Hatfield and Senators Packwood, Jackson, Gorton, Cranston, and Murkowski provide vehicles to start the procedure and when I say start the procedure, I don't mean to indicate that it is something that holds over until next year

I mean that it is a procedure that is started now in the hearings and we better move forward with a balanced bill. I don't personally feel that we have got such a vehicle, a truly balanced bill, before us right now. We can take care of that and work out something that will permit some of the mills that would otherwise go out of business to be able to stay in business.

With that balance, I think we can find away and we still have time in this Congress to pass a bill. I also would like to repeat what I said in the Senate Agriculture Committee hearing, I believe it is essential that we pass with this bill an amendment that allows the Forest Service and BLM to use their available funds for salvage and other sales that will enhance forest productivity. There are many areas where salvaging the dead and dying timber is absolutely essential and many areas where thinning is absolutely essential. The people that are now partially employed on logging crews or unemployed from mills that are shut down could well do this.

I was pleased to note in the hearing before the Senate Agriculture Committee that Chief Peterson of the Forest Service said that 3 weeks prior to the hearing he made an inquiry of each region of what their best option would be and using available funds. Salvage sale preparation could utilize personnel that otherwise would be preparing regular sales or administering timber harvesting and road building activities.

I think we can attach some sort of proviso or amendment to either one of these vehicles. Whichever we come up with, the Federal agencies can use the funds that are already available and appropriated for salvage sale work where it can be done judiciously and wisely.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Melcher. I want to thank Senator Hatfield for chairing the hearings yesterday as well as for, it seems, the endless hours we spent together trying to work out a solution to the problem that afflicts the industries in both our States as well as in other States.

Senator Baucus has a statement. I understand he has been unavoidably detained and unable to appear at this moment, so we will place his statement in the record at this point.

[The prepared statement of Senator Baucus follows:]

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM THE STATE OF MONTANA

Mr. Chairman, I appreciate the opportunity to appear before the committee to outline my concerns for proposals for contract relief for the timber industry.

I hardly need observe that this is a thorny issue. All of us from timber-producing states recognize the critical condition of the timber industry, nationwide. While the diagnosis is clear, however, the remedy is not.

Without sugar coating it, one of the principal points of disagreement is the treatment of industry on a regional basis. For example, my review of S. 2805 indicates that this measure overlooks the impacts of unrestricted timber contract termination on inland operators in states such as Montana. These businessmen view proposals like S. 2805 as endangering their ability to maintain their share of an emaciated market.

Every indicator I have seen during my recent trips home demonstrate that the inland industry faces a grave situation., workers sit idle, timber stands unharvested and marginal operations face permanent closure.

Given their current plight, the interests of timber companies outside of the West Coast must be taken into consideration in reviewing this legislation. With an estimated 80 percent of the benefits of S. 2805 potentially going to West Coast operators, a greater share of the burden of the current industry-wide depression will be shifted to the shoulders of the inland businesses. For that reason, I urge the Committee to give primary consideration to principles of equity in considering these proposals.

I have not spoken to a Montana businessman who wants to see timber companies in Washington or Oregon dragged down as the result of contracts with the U.S. Forest Service which no longer bear any relationship to reality. By the same token, however, equitable relief cannot include any provision which will flood the market with West Coast timber and undercut operators in the interior regions and other sections of the country.

For this reason, I commend my colleague, Chairman McClure, for introduction of S. 2818. The bill provides significant relief for West Coast operators by allowing the Secretaries of Interior and Agriculture to adjust the terms of pre-1982 contracts for a period of up to five years. In so doing, this measure would relieve the affected companies from the payment of any type of penalty or interest.

By the same token, S. 2818 would ease the massive backlog of uncut timber into the marketplace rather than resulting in a flood. In addition, the measure would allow administrative flexibility in adjusting these contracts which is certainly desirable in making case by case decisions.

In making these comments today, I certainly do not wish to advocate any hard or fast position. It is my sincere hope that, as a result of these hearings, the committee will be able to craft a compromise measure. To be successful, the bill must, of course, address these problems without any regional bias.

You have my best wishes in this undertaking. Again, I thank you for this opportunity to share these thoughts with you.

The CHAIRMAN. Our next witness is the Honorable John B. Crowell, Assistant Secretary for Natural Resources and Environment. And I understand he is accompanied by Dr. Engdahl, special assistant to the director of Bureau of Land Management. Introduce the others who are with you and proceed.

STATEMENT OF HON. JOHN B. CROWELL, ASSISTANT SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY MAX PETERSON, CHIEF, FOREST SERVICE; VERN ENGDAHL, DEPARTMENT OF THE INTERIOR; AND CHARLES FROST, BUREAU OF LAND MANAGEMENT

Mr. CROWELL. Thank you, Mr. Chairman. As you know, I am here this afternoon to give the administration's position with respect to S. 2805 and S. 2818. With me is Mr. Engdahl from the Department of the Interior. The position that we will be stating covers the timber sale program that is carried out by the Department of the Interior's Bureau of Land Management, as well as the Department of Agriculture's Forest Service.

To Mr. Engdahl's left is Charles Frost, of the Bureau of Land Management and to my right is Chief Peterson of the Forest Service.

I would propose simply to summarize the initial portion of my statement and then I will get into the detail about the administration's position with respect to the legislative proposals in the latter part of my statement. The early part of the statement summarizes and briefly describes the timber sale procedures that are used by the Forest Service and by the Bureau of Land Management.

The statement notes the extent to which sales on the west side of the Cascade Mountain have been rendered unprofitable to operate by the decline in the housing market and subsequently in the timber markets throughout the United States.

The statement also addresses the causes for the high-priced timber sales which have occurred most particularly in western Oregon but also to a lesser extent in western Washington and in northern California. Very quickly, the causes are a failure by the Federal Government to increase the timber sale program over the last decade or decade and a half, the rampant inflation which the country has been subject to during that same or longer period and the expectations of housing demand, which are clearly demonstrated by the demographics of our population growth and family formations.

The statement also describes in some detail the steps which have been taken since May 1980 by the Federal timber selling agencies to try to respond to the situation of falling demand for housing and thus falling demand for wood products. The Forest Service has granted two extensions, one as of May 1980 and the other as of October 1981.

The Bureau of Land Management has granted what amounts to a contract term adjustment or a free extension until the end of 1983. Both agencies have also changed their timber selling procedures in the hope and expectation of preventing a recurrence of the situation, which has arisen in the last 5 years and then lastly, but not least, the agencies have also undertaken, since the first part, of this year to provide a sufficient volume of timber in small volume short-term sales to permit the industry, in western Oregon particularly, but also western Washington and northern California, to operate on some volume of timber available at lower prices than the prices at which most of the timber is under contract in those areas.

I might emphasize also that we see it as an ongoing necessity to continue the timber sale programs of both the Bureau of Land Management and the Forest Service at a relatively high level in expectation of an improvement in the housing market within the next several years in order to assure that one of the causes of the current problem—fear of inadequate timber supplies to existing mill facilities will not recur.

It is also necessary to anticipate in connection with improved housing markets and increased demand for wood that it takes several years to bring timber sales from the planning stage to market and then into the actual usage which the wood eventually finds.

With that summary of my statement, I will pick up at the bottom of page 6 and proceed from there in detail. The legislative proposals in S. 2805 would authorize the Secretaries of Agriculture and the Interior to reduce prices of, to terminate, or to extend certain existing timber sale contracts.

S. 2818 would only authorize the Secretaries to adjust termination dates of timber sale contracts in effect prior to January 1, 1982 for a period equal to the original term but not to exceed 5 years.

Each of these authorizations has advantages and disadvantages. Each would be impossible to administer with even-handed fairness. But all would grant a greater or lesser measure of relief to holders of high-priced contracts. Each of the authorizations is opposed by one or another groupings within the forest products industry, unless the authorization is very carefully limited in very detailed specifics.

The administration strongly opposes any rollback of prices on high-priced contracts. Rollback is grossly inequitable; it allows those who purchased the timber at high prices subsequently to enjoy the advantages of holding it without having to pay the agreed price, while those who would not bid the excessive prices have, in many instances, suffered the consequences of not having an adequate timber supply.

Further, the objectives of providing employment and receipts to the Treasury and to the counties can be accomplished by continuing the regular sales program so as to get timber into the market at currently operable prices.

Although contract terminations without penalty do make the high-priced timber available again to all prospective purchasers and would permit early operation of the resold timber to occur, terminations totally relieve the original purchaser of his contractual obligations, all at the expense of the United States.

In a free market system where mistakes are supposed to be paid for by the person entering into the contract, that form of relief is extremely generous. Therefore, the administration also opposes the provision in S. 2805 which would authorize contract terminations without penalty. We must make it clear, in fact, that the administration opposes any legislative remedy which would provide broad general relief as would S. 2805 to one sector of the economy which is not available to other troubled sectors.

Since S. 2805 and S. 2818 address extensions and adjustments of termination dates, two definitions are appropriate at this point. A "contract term adjustment" as used in Forest Service timber sale contracts simply extends the termination date of the contract. It is the device BLM has used to lengthen all of its contracts to December 31, 1983. An extension, as used in Forest Service contracts, requires a reappraisal, possibly leading to a higher contract price and the imposition of additional obligations.

Forest Service contracts contain carefully drawn provisions prescribing the conditions under which contract term adjustments and extensions will be available. Contract term adjustments are available only as a consequence of force majeure occurrences, not including depressed market conditions. Thus, extensions have been the device used to lengthen Forest Service contracts.

The Forest Service is constrained from converting extensions to contract term adjustments, both by the provisions of its contracts and by the principle that it cannot modify an existing contract to the detriment of the Government.

Both S. 2805 and S. 2818 would apparently authorize use of contract term adjustments to extend BLM and Forest Service timber sale contracts. The administration does not at this point favor legislation which would authorize contract term adjustments.

At present, defaults are imminent on no BLM contracts and on only those few expiring Forest Service contracts on which the purchaser is either unable or unwilling to meet the modest conditions for a 2-year extension.

The administration holds the view that if contracts are not operated within the periods of extension currently available by administrative action that the contracts should be defaulted and that the defaulting purchasers should pay whatever damages may accrue by reason of default. Timber subject to the defaulted contracts should be resold in conjunction with the regularly prescribed timber sale program.

In short, since it is presently impossible to fashion relief that treats all purchasers of Federal timber, all segments of the industry, and the general public with fairness and equity, the only appropriate action is not to interfere with the obligations and consequences created by existing contractual commitments.

The administration does suggest, however, that both the Secretaries of Agriculture and the Interior be granted new authority to deal with defaulted contracts. The Secretaries could be authorized to enter into and to amend agreements with purchasers and their sureties who have incurred obligations for damages by reason of such default.

Such agreements could specify the schedule for payment of damages, the rate and schedule for interest payments, the security, if any, to be provided, conditions under which subordination of the security will be granted and other provisions as the Secretaries and defaulting purchasers and their sureties might agree.

The purpose of such authority would be to assure an eventual recovery of damages without forcing the defaulter into bankruptcy. It is not intended that such new authority extend relief on the basis of individual situations. Rather, the amount of damages would be determined either by resale of the timber subject to the defaulted contract or by uniformly applicable rules prescribed in regulations developed by the respective Secretaries under the authority of new legislation. It is anticipated that the availability of such authority could save many businesses and prevent much expensive and time-consuming litigation.

In summary, Mr. Chairman, the administration suggests legislation to provide authority to the Secretaries providing flexibility to deal with a defaulter's obligations for damages. The unharvested timber will find its way into the market place by being reoffered to other buyers.

The obligation of the defaulting buyer for damages will become fixed. The appropriate Secretary, however, rather than implacably pursuing recovery of the amount owed would, in the exercise of discretion conferred upon him, be able to reach agreement with the defaulter and his surety for payment of the obligation on such terms as would allow the defaulter to remain in business. The United States and the counties which share in timber sale receipts thus would eventually recover the original contract price in many cases, although somewhat later than was originally expected.

We believe the recommendation we are making is fair to those sectors of the forest products industry who have opposed any remedy for the purchasers of high priced timber relieving them of all liability to perform their contracts.

Volumes of defaulted timber would be put back onto the market as part of the regular timber sale program, thereby avoiding an oversupply of lower-priced stumpage which could result in an undue competitive advantage to its purchasers.

One final point before closing. Since 1974, there has been a provision in the Interior and related agencies annual appropriations measure which prohibits the export of unprocessed logs originating from Federal lands west of the 100th meridian. Because of the large volumes of Federal timber under contract at high prices in the west, it is obvious that the holders of such contracts would benefit from access to additional prospective markets for the next 6 to 8 years.

In closing, Mr. Chairman, I thank you for the opportunity to present the views of the administration on this bill. We look forward to working closely with the Congress as the legislation is developed. I would be happy to answer the subcommittee's questions.

[The prepared statement of Mr. Crowell follows:]

STATEMENT OF
JOHN B. CROWELL, JR.
ASSISTANT SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT
UNITED STATES DEPARTMENT OF AGRICULTURE

Before the
Subcommittee on Public Lands and Reserved Water,
Committee on Energy and Natural Resources
United States Senate

Concerning S. 2805 and S. 2818

August 17, 1982

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for providing us the opportunity to join the Subcommittee's deliberations on legislation to grant relief to purchasers of National Forest System and public lands timber. The adverse economic situation that a segment of the forest products industry is in today and the intimate role the Federal Government plays in its cause and its potential cure is indeed a complex subject and one that will require our very best efforts. We assure you of our complete cooperation in your deliberations.

I would like to begin my statement with a brief overview of the circumstances which led to the introduction of S. 2805 and S. 2818.

About 25 percent of the timber used to manufacture lumber and plywood consumed in the United States is harvested from Federal lands, nearly all of which is managed by the Forest Service and Bureau of Land Management. These two agencies contract with timber purchasers to harvest timber which has been designated specifically on the ground and on which an appraisal has been made. There is considerable competition for these contracts which are sold by oral auction or sealed bid. Contract lengths commonly range from 1 to 5 years, with an average of about 2 1/2 years. Normally, payment is made before timber is removed from the sale area. The largest volumes of Federal timber are sold in the Far West.

Sales in the Pacific Northwest States and northern California comprise over 60 percent of the average volume of total Federal timber sold annually. Over 80 percent of Federal timber purchases are made by small businesses. These firms purchase over half the volume of Federal timber.

The severe slump in homebuilding since 1979, because of continued high interest rates for long term borrowings, has significantly reduced demand for and the prices of lumber and plywood. This in turn has had a direct impact on existing Federal timber sale contracts, creating a situation in which many of these sales cannot be economically operated. The Forest Service has estimated that 88 percent of National Forest timber volume under contract in western Oregon and Washington is at prices above the average purchaser's current break-even point, where the cost of production exceeds product selling value. Additionally, it is estimated that 6 of the 22 billion board feet currently under contract in the three Pacific Coast States could not be operated at even the highest prices the market has ever seen. It is important to recognize also that many mills in this region own little or no forest lands and are heavily dependent upon Federal timber as their source of raw material. This dependency has increased over the past two decades as privately owned mature timber available for purchase has been harvested.

The expectation of the forest products industry, and particularly of those mill operators who owned little or no timber was that, as timber from private sources became scarce, increasing volumes would be made available from the accumulated large inventories of old growth timber on western Federal forest lands, particularly on the Pacific Coast. In fact, Federal timber sales did gradually increase from 1950 until 1969, but have remained virtually at the same level for the last 13 years. This occurred despite the fact that half the standing softwood sawtimber inventory in the United States today is on the National Forests where the inventory approximates one trillion board feet. The timbered portion of the National Forests and their natural growth rates could support a considerable increase in harvest rates. Sale programs in the last decade have averaged only between 10 and 11 billion board feet annually while industry sources argue that a substantially higher level should be sold annually.

Thus, because the Federal Government did not sell timber in volumes sufficient to support existing mill capacity, and there was insufficient volumes of private timber in certain areas, excessive bidding by mill owners occurred with each trying to acquire an adequate supply of raw material. The competition for limited timber offerings has been fierce. The operator with timber under contract at least had a hope of protecting his investment, whereas the one without timber was forced to close his operation and to liquidate his mill facility.

Another cause of the present situation, has been the unremitting inflation of the last 18 years. Timber prices, because of the constraints on supply, moved up even faster than the wholesale price index. The inflationary increases in timber prices, plus the obvious demand for new housing as a consequence of population growth and new family formations, played a significant part in causing escalated prices to be bid for available Federal timber.

Still another factor contributing to high bid prices was the uncertainty caused by controversy over designation of additional National Forest System lands as wilderness. Such designations reduced the level of Federal timber harvest, and controversy over management of other roadless areas created concerns by purchasers about future timber supplies.

The continuing low demand for wood products and the housing slump has resulted in a sharp drop in prices bid for Federal timber. During the first quarter of 1980, the average bid price for Douglas-fir stumpage on National Forests in western Oregon and Washington was $486 per thousand board feet. During the first quarter of 1982, this price had dropped to $153 per thousand board feet.

Many West Coast producers have been priced out of the market because they hold contracts on high-priced timber. As demand for wood products has declined, they have been forced from the market place, leaving the reduced demand to be met by those producers who have lower operating costs. In fact, some of the West Coast producers do hold some lower priced timber, so they can continue to operate on a curtailed basis utilizing only that timber. The same economic law, of course, has operated identically on all other producers for the North American lumber and plywood markets, forcing the least efficient ones in every region of the United States and Canada to curtail production or to shut down completely.

Because so much Federal timber under contract at high prices is in the Pacific Coast States, the consequences of being an inefficient producer because of high timber prices have tended to center there. Mills have ceased or curtailed operations, their employees have been out of work, dependent communities have suffered, and timber sale receipts to the Federal Treasury and to the local counties have declined. Mill owners have sustained operating losses and have suffered impairment of their capital; they are short of cash, and probably have had trouble repaying loans or getting new ones. Some of the high-priced timber sales will not be operated during the original or extended contract term and will default. The defaulting purchaser will then be liable for damages to the United States, which he may not be able to pay promptly, or ever. The amount of damages is ordinarily determined by reselling the timber, with the original purchaser becoming liable for the difference between the contract value at the expiration date of the original contract and the resale value, plus costs of the resale. Under current policies the defaulting purchaser is prohibited from bidding on the resale.

The Federal timber selling agencies have been acutely aware of the problems experienced by holders of high-priced contracts and have taken a number of steps in the last two years to help alleviate them. Both agencies have granted extensions of termination dates for the contracts. The Forest Service has implemented two such extensions, the first for one year with fairly stringent conditions, the second for two years on condition that interest payments be made on the price for the unharvested timber. The Bureau of Land Management has extended its contracts to December 31, 1983. Both agencies could grant further extensions.

On April 15, 1982, Forest Service timber sale procedures were changed with the objective of discouraging future purchasers from buying and holding large volumes of timber under contract. The Forest Service now requires an advance cash deposit to be made by the successful bidder within 30 days of sale award. The amount of the performance bond has been increased. A system of discounting bid prices to encourage early performance of the contract has been established. And, the purchaser is now required to make a midpoint payment on the contract. Keep in mind that these changes in the way the Forest Service sells timber apply to sales made since April; they are not retroactive. The BLM also is changing its procedures to require up front payment of 5 percent of purchase price up to a maximum of $25,000. They also will require payment of at least 40 percent of purchase price by the end of the second year on a three year contract. They will prohibit purchasers who have defaulted from bidding on new sales until arrangements for payment of damages on defaulted sales are made. Also, it will require that the maximum required as installment payments be $50,000 instead of $10,000.

Also, the National Forests and BLM in Oregon and Washington rearranged their timber sale program for fiscal year 1982 so as to sell contracts of short term and smaller volumes early this year. This was done to provide operators with an opportunity to acquire volumes at prices which they could operate in the current depressed market for wood products. The desired effect was achieved. Stumpage prices came down substantially, thereby enabling buyers to reduce their overall costs, and providing opportunity for them to return to the market place with at least some manufactured products.

It is imperative that the regular timber sale programs of the Forest Service and the BLM be carried on without curtailment during these difficult economic times. Some portion of the volumes sold can be harvested promptly, thereby keeping mills operating at least part time as the market for lumber and plywood allows. It is also important to assure future timber supplies on a regular basis and in needed quantities to meet increased market demands in the future so that stumpage prices can be maintained at reasonable levels. Availability of lower priced volumes also will permit averaging such volumes against the older, high-priced sales so that the latter volumes can be processed.

The legislative proposals in S. 2805 would authorize the Secretaries of Agriculture and the Interior to reduce prices, to terminate, or to extend certain existing timber sale contracts. S. 2818 would only authorize the Secretaries to adjust termination dates of timber sale contracts in effect prior to January 1, 1982, for a period equal to the original term but not to exceed five years.

Each of these authorizations has advantages and disadvantages, each would be impossible to administer with even-handed fairness, but all would grant a greater or lesser measure of relief to holders of high-priced contracts. Each of the authorizations is opposed by one or another groupings within the forest products industry, unless the authorization is carefully limited in very detailed specifics.

The Administration strongly opposes any rollback of prices on high-priced contracts. Rollback is grossly inequitable; it allows those who purchased the timber at high prices subsequently to enjoy the advantages of holding it without having to pay the agreed price, while those who would not bid the excessive prices have, in many instances, suffered the consequences of not having an adequate timber supply. Further, the objectives of providing employment and receipts to the Treasury and to the counties can be accomplished by continuing the regular sales program so as to get timber into the market at currently operable prices.

Although contract terminations without penalty do make the high-priced timber available again to all prospective purchasers and would permit early operation of the resold timber to occur, terminations totally relieve the original purchaser of his contractual obligations, all at the expense of the United States. In a free market system where mistakes are supposed to be paid for by the person entering into the contract, that form of relief is extremely generous. Therefore, the Administration also opposes the provision in S. 2805 which would authorize contract terminations without penalty. We must make it clear, in fact, that the Administration opposes any legislative remedy which would provide broad general relief, as would S. 2805, to one sector of the economy which is not available to other troubled sectors.

Since S. 2805 and S. 2818 address extensions and adjustments of termination dates, two definitions are appropriate at this point. A "contract term adjustment" under Forest Service timber sale contracts simply extends the termination date of the contract. It is the device BLM has used to lengthen all of its contracts to December 31, 1983. An "extension," as used in Forest Service contracts, requires a reappraisal, possibly leading to a higher contract price, and the imposition of additional obligations.

Forest Service contracts contain carefully drawn provisions prescribing the conditions under which "contract term adjustments" and "extensions" will be available. "Contract term adjustments" are available only as a consequence of force majeure occurrences, not including depressed market conditions. Thus, "extensions" have been the device used to lengthen Forest Service contracts. The Forest Service is constrained from converting "extensions" to "contract term adjustments" both by the provisions of its contracts and by the principle that it cannot modify an existing contract to the detriment of the Government.

Both S. 2805 and S. 2818 would apparently authorize use of contract term adjustments to extend BLM and Forest Service timber sale contracts. The Administration does not at this point favor legislation which would authorize contract term adjustments. At present, defaults are imminent on no BLM contracts and on only those few expiring Forest Service contracts on which the purchaser is either unable or unwilling to meet the modest conditions for a two-year extension. The Administration holds the view that if contracts are not operated within the periods of extension currently available by administrative action that the contracts should be defaulted and that the defaulting purchasers should pay whatever damages may accrue by reason of default. Timber subject to the defaulted contracts should be resold in conjunction with the regularly prescribed timber sale program. In short, since it is presently impossible to fashion relief that treats all purchasers of Federal timber, all segments of the industry, and the general public with fairness and equity, the only appropriate action is not to interfere with the obligations and consequences created by existing contractual commitments.

The Administration does suggest, however, that both the Secretaries of Agriculture and the Interior be granted new authority to deal with defaulted contracts. The Secretaries could be authorized to enter into and to amend agreements with purchasers and their sureties who have incurred obligations for damages by reason of such default. Such agreements could specify the schedule for payment of damages, the rate and schedule for interest payments, the security, if any, to be provided, conditions under which subordination of the security will be granted, and other provisions as the Secretaries and defaulting purchasers and their sureties might agree. The purpose of such authority would be to assure an eventual recovery of damages without forcing the defaulter into bankruptcy. It is not intended that such new authority extend relief on the basis of individual situations. Rather, the amount of damages would be determined either by resale of the timber subject to the defaulted contract or uniformly applicable rules prescribed by regulations developed by the respective Secretaries under the authority of the new legislation. It is anticipated that the availability of such authority could save many businesses and prevent much expensive and time-consuming litigation.

In summary, Mr. Chairman, the Administration suggests legislation to provide authority to the Secretaries providing flexibility to deal with a defaulter's obligations for damages. The unharvested timber will find its way into the market place by being reoffered to other buyers. The obligation of the defaulting buyer for damages will become fixed. The appropriate Secretary, however, rather than implacably pursuing recovery of the amount owed would, in the exercise of discretion conferred upon him, be able to reach agreement with the defaulter and his surety for payment of the obligation on such terms as would allow the defaulter to remain in business. The United States and the counties which share in timber sale receipts thus would eventually recover the original contract price in many cases, although somewhat later than was originally expected.

We believe the recommendation we are making is fair to those sectors of the forest products industry who have opposed any remedy for the purchasers of high-priced timber relieving them of all liability to perform their contracts. Volumes of defaulted timber would be put back on to the market as part of the regular timber sale program, thereby avoiding an oversupply of lower-priced stumpage which could result in an undue competitive advantage to its purchasers.

One final point before closing. Since 1974, there has been a provision in the Interior and Related Agencies annual appropriations measure which prohibits the export of unprocessed logs originating from Federal lands west of the 100th meridian. Because of the large volumes of Federal timber under contract at high prices in the West, it is obvious that the holders of such contracts would benefit from access to additional prosective markets for the next six to eight years.

In closing, Mr. Chairman, I thank you for the opportunity to present the views of the Administration on this bill. We look forward to working closely with the Congress as the legislation is developed. I would be happy to answer the Subcommittee's questions.

The CHAIRMAN. I guess it would not come as any surprise that Senator Hatfield and I are probably not ecstatic of the administration's position. I do have some questions that seem to me to go to the conditions that confront us today.

For instance on page 8 of your statement you say that at the present time the administration, to use your language, "The administration does not at this point favor legislation which would authorize contract term adjustments" and you point out that there are no defaults imminent except those few Forest Service contracts on which the purchaser is either unable or unwilling to meet the modest conditions for a 2-year extension.

Would you detail for the record what the conditions for a 2-year extension are?

Mr. CROWELL. The present conditions for a 2-year extension, Mr. Chairman, are that the purchaser pay interest at a regular rate periodically, quarterly, I believe we have prescribed. And the rate would be the rate which the Treasury has had to pay for borrowing funds in the preceding quarter.

The other principal condition of contract extensions made available by the Forest Service last October is that specified roads designated by the Forest Service as a condition of extension be constructed. The reason for that is that other timber sales subsequently may be planned dependent upon the use of those roads and so it was an expectation that the roads would be built within the time of the original contract term; we feel it is appropriate to require as a condition of extension that such construction take place.

Such construction does earn purchaser credit and such purchaser credit is applicable either to payment for timber on the particular sale or can be transferred for payment of timber on another sale within the same forest.

The CHAIRMAN. There are those who argue that they cannot because of economic circumstances and because of the uncertainty of future policy, they cannot meet those terms and conditions. If, as a matter of fact they cannot do so, then they are forced into default.

Mr. CROWELL. That is correct. We are aware that there may be some pending situations of that sort occurring or about to occur.

The CHAIRMAN. Do you have any modification of policy under consideration?

Mr. CROWELL. No. We do have the authority, of course, to continue to grant extensions. Both agencies have that, but I think that we would have to look very, very closely at any demand or request to renew, or to extend further the extensions that have been already granted, because we will continue as long as those extensions exist and as long as we have that high-priced timber under contract to have a large volume not processed. We believe that it would be better to bite the bullet and to have the timber return to the marketplace even if that is necessary through defaults.

The CHAIRMAN. If that is the case under the current market, you pointed out that at least under the current sales in the first quarter of 1982 the price bid is dramatically lower than that which was bid. Is that correct?

Mr. CROWELL. That is correct.

The CHAIRMAN. Then if you have this timber return to the market and readvertised and sold again, it would likely be bid at a much lower price. Is that right?

Mr. CROWELL. At a much lower price and the difference between that price and the price that would have been charged under the contract as of termination would represent the measure of damage incurred by the defaulting purchaser.

The CHAIRMAN. I understand that. You cannot get blood out of a turnip, however.

Mr. CROWELL. That is correct. We recognize that.

The CHAIRMAN. If, as a matter of fact, they are defaulting entities that are financially incapable of paying and you take that contract at the high price and renegotiate it or resold at a lower price, it is a substantial loss to the Government, is there not?

Mr. CROWELL. There would be a substantial loss to the Government if the damages cannot be paid.

The CHAIRMAN. Is that not the scenario that is being painted to you and to us by a number of people from particularly the Western region and Oregon?

Mr. CROWELL. It is, Mr. Chairman.

The CHAIRMAN. In the face of that, I am a little puzzled by the statements you make that you are opposed to the contract-term adjustment, on the basis that that would cause a loss or a modification of existing contracts to the detriment of the Government, which certainly an extension could be but contract term adjustment is not.

Mr. CROWELL. I am sorry, I don't understand the question.

The CHAIRMAN. Is not contract-term adjustment, people still must live up to the terms of the contract and give them enough opportunity to do it over a different period of time.

Mr. CROWELL. The contract-term adjustment, though, comes without any charge for interest on the unpaid purchase price, as I understand it. It would be a totally unconditioned extension, if you will.

The CHAIRMAN. It could well be, but isn't that, isn't it better to have them go ahead and harvest the timber at the present prices even without interest than it is to have them default and have Government take the loss and the difference in sales price?

Mr. CROWELL. That would be better and that is what we would hope would take place under the extensions that have already been granted.

The CHAIRMAN. The extensions are going to be renegotiated or resold at a lower price and it will be an immediate upfront loss to the Government, both local and State—local and Federal.

Mr. CROWELL. No, Mr. Chairman, only if the extended contracts are not operated and are defaulted. The same consequence, of course, could occur under a contract-term adjustment.

The CHAIRMAN. You are talking about extensions requiring reappraisal, reappraisal is going to be lower.

Mr. CROWELL. No, the price does not go down when you reappraise under the Forest Service contract procedures. If the reappraisal results in a lower price, then the original contract price stays in force.

The CHAIRMAN. You mean it is a heads I win and tails you lose. If it comes in higher we get it; if it comes in lower tough luck.

Mr. CROWELL. It could be characterized that way hastily. [Laughter.]

The original purpose, of course, for contract extensions was to accommodate a requirement of the purchaser. The purchaser's original obligation is to harvest the timber within the original term of the contract. If, for some reason he cannot do it, for some reason he is willing to ask for an extension and to pay a higher price, if that is called for by the reappraisal, then the extension would be made available, provided other conditions had also been met.

We waived some of those conditions with the extension that we made available. We relaxed the terms of the extension and made it available in October 1981.

The CHAIRMAN. I understand that and I think it is fair to state that I have supported the extension policy which you have implemented. I did not want the record to indicate that I did not. I have and what you have done, I and others have appreciated.

I am concerned, of course, with the loss of money that will occur under termination, the loss of potential revenues. But I am also advised and believe that there will be substantial loss to the Government and the bankruptcies of those who cannot fulfill contracts and who will be in effect judgment proof with respect to the damages.

Have you tried to assess the comparisons between the losses to Government and those two differences?

Mr. CROWELL. No. We have looked at the possibilities, but there are so many variables, Mr. Chairman, it is impossible to make any kind of reasonable projection. We do not know the financial status of our purchasers, to begin with, and we have no way to indicate what the future market levels would be at the time the contracts would expire and would go into default if they have not been operated. So there is no reasonable way in which one could estimate what that measure of loss might be.

The CHAIRMAN. The contract term adjustment is subject to some control. From your standpoint the Government does not get interest on what should have been paid if this contract should have been performed. They do not lose anything with a result of sale price to timber.

Mr. CROWELL. That is correct, provided the contract is operated during the period of adjustment.

The CHAIRMAN. And you have control over that, during that period you cannot control it from a short term, but certainly it would be the expectation if the term were adjusted that they would operate on that contract according to its term during that period of time.

Mr. CROWELL. It would be a hope only, Mr. Chairman, because there is not any proposal as we understand it to require performance during a period of contract term adjustment regardless of whether that could be done economically or not.

The CHAIRMAN. The same hope that you have that they will now?

Mr. CROWELL. Yes, that is correct.

The CHAIRMAN. The same hope you have when you signed the contract after having a sale offered and somebody's bid and you entered into a contract.

Mr. CROWELL. That is correct. It would be the same and it depends really on the prices, market prices for the finished product which could be developed from the timber.

The CHAIRMAN. Do you have any provisions in existing contracts or regulations that allow you to control total volumes that are produced in a region other than the amount of timber that is under contract?

Mr. CROWELL. No. The maximum amount of timber theoretically which could be produced from a forest or from a region in a year's time, say, would be the volume of timber then under contract. As a practical matter, of course, that volume under contract could not conceivably be harvested in a timeframe as short as 1 year.

The CHAIRMAN. I am obviously quite concerned about one of the aspects which we have discussed and that is if there are extensions or term adjustments, whichever term or whichever means is used, and then you advertise short-term sales, which you have done, and the same people who hold the contract also bid on the short-term sales, the aggregate values under contract at any one time are greater. And they could in that period of time overlap if the market demands were such that they could then operate on all of the contracts. It could greatly increase the volumes that flow out where that practice was followed.

Is that correct?

Mr. CROWELL. That is correct and the obvious advantage of that would be that if you have short-term low-price contracts and longer term extended contracts or contracts that have been subject to contract term adjustment at higher prices and the markets for the finished products were good, you presumably could get an averaging effect which would be very helpful to resolving the current problem.

The CHAIRMAN. That was a concern of the inland forest producers and it was also a concern of the southern timber producers.

Mr. CROWELL. Mr. Chairman, I think the concern they have is that there would be volumes in addition to the regularly scheduled sale volumes coming into the marketplace and that concern was a result of the proposal for terminating contracts, adding that volume to the regular sales program. That would then mean a large additional amount that could come into the marketplace in the region or the subregion where the terminations had taken place.

Presumably, that would result in lower stumpage prices and would give the purchasers an advantage which in turn could be translated into a capture of finished product markets that are currently being enjoyed by others. It was the other producers concern that that kind of a consequence could cause them economic harm.

Now, we have tried to be responsive to that by indicating when the contract termination proposal was under discussion that we would not expect those volumes to be in addition to the regular sales program volumes, but that they would be treated as part of the regular sales program.

We still would intend to treat any volumes that might default that way so that we would not cause an undue increase in stumpage offerings in a limited region or subregion of the country.

The **Chairman**. Do you believe that that device by itself will be sufficient to limit the volumes in the event there were widespread defaults or terminations?

Mr. **Crowell**. Yes; if it were treated as part of the regular timber sale program, it would mean that there would not be large unexpected volumes in addition to the regular program coming on the market. The reason for that is that not all of these high priced contracts are likely or can be expected to default within the same short timeframe.

It would be over quite a number of years that defaults would occur. They could be melded into the regular sales program in accordance with the volumes and the time in which that occurred.

The **Chairman**. You have no contracts for more than 4, or possibly 5 years.

Mr. **Crowell**. The Forest Service would have very few contracts for more than 5 years. There may be a few large-volume, low-value contracts that are for as long or longer than that period outside of Alaska.

The **Chairman**. Within this region?

Mr. **Crowell**. Now, of that I am not sure. There would be some 5 or 6 year contracts in each of the western regions of the United States.

Senator **Hatfield**. Would the Senator yield for a minute?

The **Chairman**. Of course.

Senator **Hatfield**. Do I understand then that any of the defaulted contract timber would be absorbed back into the current level of timber sales?

Mr. **Crowell**. Yes.

Senator **Hatfield**. Why did you increase the timber sales from 1982 to 1983 by—in anticipation of what, when you moved from 11.3?

Mr. **Crowell**. That was in expectation of the———

Senator **Hatfield**. Defaults?

Mr. **Crowell**. No, sir, not defaults at all. It was in expectation of an improved economy with a subsequent, considerable increase in housing demand and———

Senator **Hatfield**. Now, with this absorption, is this a signal that we don't expect the economy to improve in the next year?

Mr. **Crowell**. No.

Senator **Hatfield**. Is that your signal to us?

Mr. **Crowell**. No, we can't interpret it that way at all, Senator Hatfield.

Senator **Hatfield**. Why not?

Mr. **Crowell**. The way we treat these contracts that are currently under contract and in danger of default does not have anything to do with what we might predict for future market demands for wood.

Senator **Hatfield**. If you absorb all of that in your current level, why doesn't it? Your levels are proposed on some level, I suppose, for what you anticipate for the demand.

Mr. **Crowell**. No; we are continuing to propose a sales program in the neighborhood of 12 to 13 billion board feet nationwide. It would be in expectation of a demand for wood products nationwide.

Senator **Hatfield**. Do you want to revise your 12.3 billion at this point?

Mr. **Crowell**. No.

Senator **Hatfield**. I will follow up later.

The **Chairman**. Thank you very much, Senator Hatfield. I don't mean to prolong this portion or dominate this portion of the questioning, I will yield in just a moment, but there are one or two other questions. You have taken a number of steps trying to adjust the bidding practices and the penalties or benefits to those who bid or hold contracts and you have outlined some of those on the bottom of page 5 and the top of page 6 of your statement.

You are requiring a larger upfront payment. You are requiring a larger interim payment at the end of the second or third year of the contract. You are adjusting installment payment requirements. You are requiring different bonding procedures which increase the expenses.

That certainly is going to reduce the amount of bidding, but it also increases the cost to those who find it necessary to bid and cannot avoid bidding. Does it not?

Mr. **Crowell**. It, clearly, does increase the cost upfront of holding a timber sale contract, and it increases the cost for holding a contract without operating it. That is the specific purpose for which these items were designed. In other words, they are designed to discourage bidding that is intended to look with hope to the future without any real assurance about what the future market demands might be.

The **Chairman**. You pointed out that in the Pacific Northwest in particular, and I think it would be true in much of the Inland region as well, that a great many of the mills, particularly the smaller mills that are in whole or in major part dependent upon timber grown on Federal lands.

Mr. **Crowell**. Yes, sir.

The **Chairman**. And I am sure that you know that those who are so dependent upon Federal timber try to hold at least 3 years' timber under contract; is that not correct, in order to make sure that they have got the possibility of operating this year and next year and the next year that they contract for more than 1 year at at time?

Mr. **Crowell**. Mills are understandably concerned about having an adequate timber supply under contract and it is not unreasonable for them to want to have that supply at least 2 years, 3 years, maybe even 4 or 5 years out ahead of them. That is a perfectly reasonable and understandable expectation.

The **Chairman**. As you increase the upfront cost on each of the sales you are increasing their overall operating cost because they must, if they are going to have 2, 3 4, or 5 years under contract, they must have some upon which they are operating and some upon which they are not operating.

Mr. **Crowell**. That is true, although the increased cost, Mr. Chairman, will be reflected presumably in lower stumpage bidding, so that actually the stumpage seller bears the cost of these measures designed to prevent, as you said, speculative bidding. However, as a principal seller of stumpage, the Federal Government has concluded that that kind of cost, lower stumpage, to the Federal Treasury is worth the price of assuring that we do not ever again experience the kind of pain that we are going through currently with this series of high priced contracts under contract which cannot be operated in the present or shortly forseeable markets.

The CHAIRMAN. Mr. Secretary, I recognize the dilemma that this may be a damned if you do and damned if you don't dilemma today, but certainly as you increase the cost of operating for those who are dependent upon Federal timber, you increase the upfront cost of the interim payment cost. It does have the effect of favoring those who have mixed stands of Federal, State, and private, particularly. The more heavily dependent upon Federal that they are the more the competitive advantage of those who have private.

Mr. CROWELL. It would depend entirely on what the cost of that private timber was. If it was low cost timber that is true, but if it is high cost—and there are people with very high cost private timber today—that would not be true.

The CHAIRMAN. That would be correct, if indeed the private is a higher cost than that of the Federal. But if their costs are lower than that of the Federal timber the interim payments or operating charges are increased on the Federal disproportionate to the private and that is true in my State.

Those who are operating on State lands have a much better break than those who are operating solely on Federal.

Mr. CROWELL. Of course, people who own private timber do have other carrying costs for that timber, which you would have to offset against what effectively are carrying costs that we are now imposing with our new timber sale requirements. So I am not sure that one could generalize about it.

The CHAIRMAN. Have you analyzed that?

Mr. CROWELL. No; I don't think it would be particularly productive to do it, because you could make almost limitless numbers of assumptions about the conditions and the carrying cost for the private timber.

The CHAIRMAN. I know my job is a little easier than yours in some respects, because I don't have to analyze all of them, but I have analyzed some of them and the ones that I have analyzed were very clearly a benefit to those who have private stumpage. And that may not universally be true but you begin to distort the competitive position between those that are dependent upon Federal, you begin to change. Maybe that is a better way of saying it. That is to those who are disadvantaged by, I am sure they say it is distortion.

Mr. CROWELL. As I say, I am sure there are advantages or there are situations where the owner of private timber, who can mix that with public timber, does have a competitive advantage over the operator who only has access to public timber. But, as I say, the other would be true as well. It depends on what assumptions you make.

The CHAIRMAN. That, of course, is one of the reasons for concern of the inland forest industry is if you have contract termination which is utilized only in the western region that there will be a substantial distortion in the total market.

I am also concerned about a little aspect of what Senator Hatfield raised and I will not go into it as fully as he did or as fully as we will later. And that is with increased sales volumes, those increased volumes are not matched by increased consumption, we begin to affect the market adversely as well.

Mr. Crowell. Yes, that is correct. Senator Hatfield, I apologize I was not following the thrust of your question, if that is what it was. You are right that if the markets continued poorly and we were unable to process and to sell in the market place the finished products from as much timber as we were adding to the potential log supply by Government timber sales, there would continue to be a build up of timber under contract which would not help us out of this present situation.

So, if we reach a point, say, a year or two from now where there has been no improvement in the demand for wood products, we would then have to look, I think, quite closely at any plans for continuing to sell the same volumes of timber that we currently are planning to sell.

But we think it is much too early to make a prediction of that sort, the conditions that we find ourselves, that the industry finds itself in, today. If things do get better and we do have a big increase in the demand for wood, then we could have the opposite situation where we would have an inadequate supply of logs to the mills, this could result in high prices for finished products, a situation which has occurred before, in 1973 and in 1969 and in 1965. That situation led to congressional hearings which explored the causes for it. If that happens again, we would have made very much the wrong move at this point, by reducing the timber sale program.

It is our view that it would be premature to take so pessimistic a view of our current situation as to assume it will continue indefinitely. Two or three years from now we might be forced to do that.

The Chairman. I am a little concerned as you move into the current low-cost sales and you tend to look at what that does in terms of averages rather than in terms of absolutes, if you have long term sales out there at high price, short-term sales at low price, they are going to be operating on whatever combination yields the net value to them now.

If we don't then see the improvement in the market as forecast, they will then indeed have been right and you will make further adjustments in the future and those who did not have the opportunity to thus average will have been substantially disadvantaged in the market for short term.

Mr. Crowell. That is true, although one has to keep constantly in mind that many timber sales sold by both of the Federal timber selling agencies, even if they were sold today at a low price, could not be operated tomorrow or even next year, because a lot of these sales require road construction which takes time. It is not a necessarily compelled conclusion that low-priced sales today are going to take somebody else's market away tomorrow.

The Chairman. Senator Melcher.

Senator Melcher. Thank you, Mr. Chairman. Mr. Secretary, there is a very appropriate principle that comes out in this instance about canceling or changing the contract. I think we all feel it and we all share it. That principle is that it really goes against the grain to alter a contract when things get tough to the advantage of a person or a company.

But really when they bid this stumpage up the individual or company had a different set of assumptions. They expressed their assumptions in their bids. It is hard for me to envision some of these high prices that were bid on that west slope timber. But, they certainly expressed their assumptions.

And I assume they still do. They must have had rose-colored glasses, I guess. But those assumptions were made on the basis that we are going to have what 1.8 million housing starts in the United States?

Mr. CROWELL. That was the average for the decade of the 1970's, yes.

Senator MELCHER. They may not all thought that it will be as good, but they did not think it was going to be 1.6 million. Nobody that I have talked to before then, during this time and since then ever thought it would get this low. What do we have now, about 1.1 or 1.0 or below 1 million?

Mr. CROWELL. It has been under a million for this year so far.

Senator MELCHER. About all the houses that have been built in Montana are being built in Billings. It is somebody that has been moved in because there is more oil and gas exploration and coal development going on in eastern Montana. And those houses are $139,000 houses or $225,000 houses that the company is paying for. Or the executives are moving in on such a price level. And in the rest of the State there is hardly anything.

So the big volume of housing is gone and it is because of the high interest rates and nobody—I talked to Paul Volcker when President Carter was the occupant of the White House and we were invited there. Mr. Volcker was invited along with cabinet members, so much for the independence of the Federal Reserve Board.

Every question that was addressed concerning the state of the economy and the outlook on interest rates, the President referred to Chairman Volcker. He said that we had to have high interest rates until inflation came down.

And so inflation has come down and the interest rates are still up. The prime dropping is encouraging, but it does not do anything, as we all know, in the housing industry. The interest rates are still high and we do not know when they are going to come down, even though the Feds are doing things now that some of us wish they had done a year ago or a year and a half ago.

So I think some timber purchasers are caught in a pretty tough bind and the Government is losing too. As you have already outlined in your testimony there are losses all through this. You speak of making provisions under existing authority that you have, provisions on default and what the penalties are for defaulting and so on. I know that those would be helpful, but they are not helpful enough.

And I think that both sides are going to lose. Revenue coming into the Treasury is down, what, about $60 billion from what Stockman estimated in the second quarter of 1981? And every new quarter, every time it has to be reestimated they are asked to come up with a lower estimate of revenues received because of the unemployment principally. The downturn in business results in unemployment and everybody is losing and the deficits are huge.

So even though it goes against the grain to readjust the contract, something is going to have to be done. I don't think we can just rely on making some adjustments to pay off on their defaults. I don't think that will get it done.

We have got to work something out. You said in your testimony, if the companies that have got these high-priced contracts can get some, lower cost stumpage and then blend it in somehow maybe they can come out, I think that was it. Have I read your testimony correctly; that was your point, was it not?

Mr. CROWELL. That could be done, Senator Melcher, under either the proposal for contract term adjustment or under the administration's suggestion for dealing with default. In effect it would have the same consequence either way.

Senator MELCHER. And you have that authority now?

Mr. CROWELL. No.

Senator MELCHER. You don't?

Mr. CROWELL. No, we don't and that is why we are asking——

Senator MELCHER. You want some new authority on default?

Mr. CROWELL. Yes, sir.

Senator MELCHER. So that would be part of the blend also, the blending solution?

Mr. CROWELL. Right.

Senator MELCHER. Is there anything wrong in thinking of a blending of timber sales? Some sort of arrangement where you plan temporarily to transfer or exchange existing contracts to some other timber product that can be better used in this market.

Now, what action we have got in Montana, and I don't know if it is typical of the entire Northwest, but what we have got going on in Montana is that, yes, there is a demand for chips. It is not unlimited, but it is there and there is some demand for logs and they are building some log homes. It is hit or miss for those workers. It is generally not a 40-hour week and it is not too often that they get a 40-hour week. But there is still some action and, of course, there is a demand for firewood.

Is there some way of blending these parts together that would help in this solution? We are going to have to find a solution soon. I think those of us here believe that. Otherwise we are going to have too many jobs lost. We certainly have a lot of timber that ought to be cut that would enhance the productivity of the forest. Too often there has not been anything done and there ought to be.

You talk about deficit sales. Why shouldn't the Federal Government pay somebody to go in and get rid of this dead and dying timber that we have got in some of the forests? Is there some way of blending that in as part of the solution?

Mr. CROWELL. I don't see how, Senator Melcher, unless people are able to buy timber that we offer for sale at modest prices and if we then get an increase in market demand, which allows a good profit to be realized on those lower priced sales, no matter what form of wood they are in, to be offset against higher priced sales. But that is the only way I can see it working in a blend.

Senator MELCHER. Would it be fair to allow timber purchasers to pay some interest on sales under contract but still have some credits to go against new salvage sales? What would be charged for somebody to go into the Gallatin National Forest and cut out some of that bugkill timber that ought to be removed? They ought to pay them to do it. What would the price be, Max?

Mr. **Peterson**. As you point out, some of that material has a negative value now. When you start with the market price and work backwards deducting all costs, some of that timber would have very little value, if any.

Senator **Melcher**. I don't know. I think it does put those fellows back to work. And one of the cost offsets is they are 200 or 300 miles away from where they use the chips. Certainly you ought to get rid of those bugkill trees and some of it will still chip. Will it not be marketable?

Mr. **Peterson**. Yes, some of it will. I am not sure either Mr. Crowell if I fully understand your question.

Senator **Melcher**. Here we have a company that has a timber sale contract and there is not any way in this world that they can honor that contract. You don't want us to extend it, you don't want us to reduce it, is there some way you can hold part of those sales and still maintain the level of competitiveness and the interest on the contract and still give them some credit for going over and getting rid of some of this bugkill timber that certainly has no value as it stands?

Mr. **Crowell**. We have not given thought to that particular question, Senator Melcher, primarily I guess because we have been focusing on the west side of Oregon and Washington and northern California in dealing with this problem.

Now that you have identified the potential here, let us think about it and maybe we can come up with something ingenious.

Senator **Melcher**. I know the highest bids are on that west slope. We have some problems too, as you are well aware.

Mr. **Crowell**. High-priced contracts are not just in the west side.

Senator **Melcher**. If you can give me any hope or advice on that I would appreciate it. It seems to me, however bad it is to start turning back the contracts, having bid it voluntarily, something is going to have to give here or we are going to have too many companies going broke. We just cannot stand that.

Thank you, Mr. Chairman.

The **Chairman**. Thank you, Senator. Senator Murkowski.

Senator **Murkowski**. Thank you, Mr. Chairman.

Mr. Crowell, it is my understanding that the basic purpose of the two bills that are submitted is to somehow assist the loggers and timber owners and the current problems associated with the economics and the recommendation of your testimony is pretty much limited to a statement that would suggest you would oppose any rollback of prices and you request new authority to deal with defaulted contracts.

And then you go on to state that you believe your recommendations are fair to those sectors of the forest product industry who have opposed any remedy for purchase of high priced timber.

Might I ask you what you consider those sectors of forest products industry are who oppose any remedy?

Mr. **Crowell**. It may have been a bit inarticulately stated, but almost any one of these remedies has met with some opposition from one or another sector of the industry. Senator McClure has brought that out with respect to people on the east side of the Cascades who are very leery about any proposal for contract terminations without penalty. The southerners are concerned about any addition of volumes to the normal timber sale program, which would result in very low price stumpage and consequently an advantage to western producers which could get their products into southern markets.

So we also have to be concerned about the people who did not bid high prices for timber, who dropped out of the bidding. There are instances of mills on the west side that went out of business, or that have had inadequate supplies of timber under contract, because they were prudent enough to realize the possibilities that the kind of problems that we are now confronted with could occur. To just freely allow people who have bid these contracts, often at the expense of those who did not care to bid such prices give them total forgiveness, or to let them off the hook, is not really fair to people who acted prudently in the years when this whole situation was building up.

This is an insoluble problem. You cannot possibly be fair to everybody who has been affected by it and who has been a part of it.

Senator MURKOWSKI. This would appear in favor of those who have already large blocks of timber that have had insulation and I note that there does not seem to be much in the way of any constructive suggestions on how to assist these people who have got problems with their purchases. And it would appear that you are responding to those and the opinions of those who really do not have a problem.

Is that a fair analysis?

Mr. CROWELL. I would say that is fair except with this addition, that nothing is being proposed now to alleviate the problems that have already been confronted and dealt with by people who did not buy timber at high prices and consequently went out of business.

For that reason, reluctant though we are to reach this conclusion, the administration has decided the best way to deal with this insoluble situation is to allow the scenario to be played out in accordance with the contract terms that were entered into by the purchasers and the selling agencies.

Senator MURKOWSKI. In the first part of your statement, you indicated that the forest products industry, particularly those mill operators who own little or no timber were in effect in a more difficult position than those that accumulated large inventories of old growth timber and you went on to say that there was virtually no timber sales by the Federal Government, although there was an inventory of 1 billion board feet or thereabouts. Could you tell us why there was a curtailment of sales by the Federal Government during that period?

Mr. CROWELL. What I was referring to was during the period when, in western Oregon and western Washington and northern California there was more dependence and more utilization of private timber——

Senator MURKOWSKI. That was export timber primarily?

Mr. CROWELL. No, it was being used in the mills and the private owners were harvesting their old growth timber at a rate which made them less dependent, of course, on National Forest timber. Once that private timber was cut the reasonable expectation was that the process of bringing the national forest timber under management, which was the process that had been pursued on the private land since World War II and earlier, an increase in national forest timber harvest would take place.

It did not take place and there were a number of reasons. One of them was simply the difficulty in getting annual budget appropriations to fund an adequate timber sale program. Another was the concern for wilderness set-asides and environmental concerns. So the potential harvests levels from the national forest did not begin to be realized during the period of the late 1960's and also the 1970's when, had we been on an appropriately planned long-term basis, we could have sold more Federal Timber.

The operators would reasonably have expected that there would have been an increase in the Federal timber sale program.

Senator MURKOWSKI. During that time was there not a tremendous increase in the amount of timber exported from private lands because of the attractiveness of selling into that marketplace?

Mr. CROWELL. No; it is true that export, log exports did present another market for log producers. It was cut off in effect from Federal timber in about 1968 or 1969 with the Morse amendment. I think it was 1969. And then the Morse amendment expired in 1974 and was superseded by the annual provision in the Interior and related agency appropriations bills, which continued from year to year the prohibition on export of logs originating from Federal lands west of the 100th meridian.

But the export volumes from the west coast, as I recall, went roughly from about 1 billion board feet in the early 1960's to about 2.3 billion by the late 1960's and has been pretty steady even after the Morse amendment and its successor at about 2 or 2½ billion feet for the last 12 years or so.

Senator MURKOWSKI. In your request for new authority to deal with defaulted contracts, is it your intention to have a retroactive clause assuming that you would get this new authority? What effect would it have on sales that are already in default? Would it go back and pick those up? Would you then have the flexibility that you need and do not have now to deal with contracts that are in default?

Mr. CROWELL. So far, we have not had defaults attributable to this scenario of high-priced timber having been turned back without having it operated except in isolated instances. So we have not given any thought really to the extent to which we might consider making it retroactive.

Frankly, we have been regarding this as a prospective problem, which is going to have to be dealt with in the next several years.

Senator MURKOWSKI. Some of my constituents indicate it is more than a prospective problem. It is a real problem. We have a case in Alaska where we have in litigation a question of default at the present time. That is why I was interested in knowing whether your intention was in this proposed change to go back and pick up those problems that are already in existence because of the economic realities associated with the timber contracts and the inability to market those.

Mr. **Crowell**. Just off the top of my head, without having been able to analyze any particular case or cases, and it is always dangerous to react that way, off the top of one's head, without that kind of analysis, I would think there could be some possibility for making it retroactive for a short time, but I would say you could not go very far back and be reasonable.

Senator **Murkowski**. I am curious, one more question, about a point that you made reference to and there was no elaboration. It is your final point that since 1974 there has been a provision in Interior and related agencies' annual appropriation measures which prohibits the export of unprocessed logs originating in the Federal lands west of the 100th meridian.

It is my understanding that is roughly where you divide East and West through the Dakotas and down.

Mr. **Crowell**. Correct.

Senator **Murkowski**. And because of the large volumes of Federal timber under contract at high prices in the West, it is obvious that the holders of such contracts would benefit from access to additional prospective marketing in the next 6 or 8 years. Are you suggesting that we allow in effect round log export from Federal lands?

Mr. **Crowell**. I am suggesting that it would be an appropriate thing for the Congress to consider as part of the solution to this problem.

Senator **Murkowski**. What would that do to the timber industry in the Western States from the standpoint of the sawmills? Would it create another problem?

Mr. **Crowell**. Not immediately certainly.

Senator **Murkowski**. It is shut down already.

Mr. **Crowell**. No, what it would do would be to broaden the prospective market for this large volume of timber which is already under contract and because of high prices does not have the immediate prospect of being moved to market. In other words, if you have a large supply you can sell more of that supply if you have a bigger demand.

One way to enhance demand is to broaden the market.

Senator **Murkowski**. And we are exporting our sawmill jobs, are we not?

Mr. **Crowell**. I don't think you would be.

Senator **Murkowski**. The Japanese can buy those round logs and manufacture and ship it back and undersell our own market as the Canadians are doing now.

Mr. **Crowell**. The Japanese have never done that.

Senator **Murkowski**. Not quite, but there is a lot of timber.

The **Chairman**. Woodie station wagons would be built by Datsun.

Senator **Murkowski**. One other followup question, you include Alaska in your definition of west of the 100th meridian.

Mr. **Crowell**. It is west of the 100th meridian, but Alaska has long had a restriction on log exports before the Morse amendment and the Interior and related agencies appropriation act provision Alaska is under a separate provision.

Senator **Murkowski**. Would you recommend that Alaska be included in that area of round logs?

Mr. **Crowell**. Not unless Alaska is also experiencing a problem of large buildups of inoperable timber and I am not aware that they are.

Senator **Murkowski**. There is certainly a drop in the market production of mill output, closure of mills. The pulpmills have reduced hours from 7 days to 4 days a week. In both instances the pulp market is down dramatically. The sawmills that were operated on two shifts are trying to stay alive on one.

Under that scenario if you are satisfied that there is indeed a decline in the marketing in Alaska of that product, whether it be lumber or cants, would you then recommend that Alaska be included in this unrestricted export west of the 100th meridian?

Mr. **Crowell**. Alaska has always presented some rather special problems, because of its distance from the marketplace for both finished wood products and pulp. It also has special problems dictated by the character of the wood on the national forest there. There is a lot of highly defective timber and I would not be prepared to say that the log export restrictions should be lifted from Alaska without some very careful analysis of that special situation.

Senator **Murkowski**. You don't have an opinion at this time?

Mr. **Crowell**. I do not.

Senator **Murkowski**. Because without the restrictions that we have had, it is questionable if the plants that are in operation in Alaska could continue to operate if round log exports were applicable.

Mr. **Crowell**. If that were true, it would lead to a continuation of the ban.

Senator **Murkowski**. In conclusion, Mr. Chairman, I would say that it would be appreciated, as one member of the subcommittee, if some constructive suggestions could be made by the Secretary or the Department of Agriculture in regard to the real problem of what do we do here other than give you more flexibility to respond to default cases.

It is obvious that there is more needed than just flexibility.

Thank you, Mr. Chairman.

The **Chairman**. Thank you, Senator. I too feel that there has to be a solution somewhere. Just to ride it out does not seem to me it is going to be sufficient and I don't think we can just write it out. It is a little like having bought a ticket on the Lucitania and being stubborn enough to not take the lifeboats.

Senator **Murkowski**. I agree with you, Mr. Chairman. I wonder if a restriction on all exports of round logs would not be an answer to the problem.

The **Chairman**. Senator Hatfield.

Senator **Hatfield**. Mr. Chairman, John and I have known each other for a long time. I have a few questions I would like to ask you. Would you recite again for the record a little bit about your outstanding, extraordinary backgound in the field of forestry.

Tell me again about the qualifications you have for this position.

Mr. **Crowell**. I came to the job as Assistant Secretary of Agriculture for Natural Resources and Environment with supervision over the Forest Service and Soil Conservation Service from being general counsel for the Louisiana Pacific Corp.

Senator **Hatfield**. That is a lumber producer.

Mr. **Crowell**. It is a forest products company. It produces lumber, plywood, pulp, paper, flake board, hard board, pretty much the gamut of forest products. Before that I was, as you know, staff attorney with Georgia Pacific Corp.

Senator **Hatfield**. And that is a producer of timber.

Mr. **Crowell**. The same kind of integrated forest product company. I also had a great deal to do with industry affairs, as you know, with various industry associations.

Senator **Hatfield**. Because of your outstanding expertise that you have developed out of all of these excellent jobs.

Mr. **Crowell**. I had a lot of good teachers and some of them are sitting behind me in the room today.

Senator **Hatfield**. And you have been a very good counselor and tutor to me on a number of these very difficult industry problems. Have you not?

Mr. **Crowell**. I have tried to be.

Senator **Hatfield**. Now, John, tell me what was your initial recommendation for the administration's position before speaking as an expert? I assume you gave it your advice as a professional, from your long experience in timber product production and one that had been involved and knew the problems. Tell me what was your recommendation for the administration's position?

Mr. **Crowell**. I am afraid, Senator, I am going to have to decline to answer that question. I don't-think my personal views in the situation here today——

Senator **Hatfield**. No, your professional opinion.

Mr. **Crowell**. I am here to represent that administration and I think my personal views and my professional views are irrelevant for purposes of this hearing. I would be glad to talk to you about it in private.

Senator **Hatfield**. Well, John, you have answered my question. [Laughter.]

I really appreciate the very embarrassing position you must be in today. I really feel you must be terribly embarrassed and I really feel sorry for you to be in that role. Yet, you are a good team player and I respect you for that, too.

I don't believe that anyone that has your background and experience, knowledge, and involvement in the industry would ever make this recommendation for policy. Because this is no policy. I am appalled that the administration has exhibited again such callous disregard for this industry. This to me is a program for increased unemployment.

You have a sign outside your door that says Forest Service, I suppose. Perhaps you should change that sign and put liquidators, Government liquidators. This is the kind of policy you are suggesting today, further liquidation, in the industry, higher unemployment, more default, more bankruptcies. I cannot imagine that being publicly ever stressed as the official policy of any administration and especially one of my party.

I must say I am embarrassed too. I am horribly embarrassed that I am a part of this party that has this kind of policy. And I want to take this moment to disassociate myself as completely as possible from a party that proposes this kind of liquidation in an important industry.

Now, let me go back to the question I was starting, following up Senator McClure. If I understood you correctly if we had a default, let me build a scenario, if we had a default of 3.6 billion feet in 1983 and we had a timber sale program for 12.3 billion, do I understand that defaulted timber would be returned to the industry unharvested, would be simulated as part of the 12.3 billion feet or would it then be 15.3 billion board feet?

Mr. **Crowell**. It would not be our intention to add it to the 12.3 and come up with a 15.9 total. Instead, it would be our intention, as closely as we could do it, and there might be some slippage between the figures, to keep the program at 12.3 and to reduce the otherwise planned sales program by the 3.6 which would be coming back into the market as a result of the defaults.

So if you were to subtract from 12.3 the 3.6, I guess that gives us 8.7. Doesn't it?

Senator **Hatfield**. So it would be assimilated part of the 12.3 billion board feet. Let me put on my Appropriations Committee hat. In the 12.3 billion board feet timber sales program that you are projecting and recommending in your 1983 budget, that is timber that has to be prepared for sale. Is that correct?

Mr. **Crowell**. That is correct. It would be for—the appropriation would cover preparation of sales totaling 12.3 billion board feet and the administration of sales being operated in 1983. So we have a pipeline that may be 2, or 3, or 4 years long that involves a mixture of sales in various stages of completion. Progress through the pipeline depends on annual appropriations and on market demand.

Senator **Hatfield**. Then that which is defaulted, having gone through that process, we could reduce your budget for every defaulted contract as a part of that 12.3 billion sale program budget request that you have made. Could we not? Because that has already been prepared.

Mr. **Crowell**. That is correct. There would be no reason to come to the Congress with an appropriation request that would fund 12.3 billion board feet plus the expected defaulted volume in your assumption of 3.6 billion.

Senator **Hatfield**. Now, let me ask you this question, on the defaulted contract you say it would then be put up for bidding. It would be cranked into your current sales. Who would bid on that?

Mr. **Crowell**. Anyone who was eligible to bid on it.

Senator **Hatfield**. You mean any of the survivors in the industry?

Mr. **Crowell**. Yes.

Senator **Hatfield**. Do you think that the current market situation, being what it is, and vis-a-vis the new housing starts and the number of mills that are shut down, in timber producing areas, with reduced demand in the existing marketplace, do you really believe they are going to get people outside of the Georgia Pacific and the Louisiana Pacific, some of the big operators, do you think you will get very many bids on that? Do you really expect to sell it?

Mr. **Crowell**. I think there would be bids, Senator, and I think particularly that would be true if the defaults were occurring over a period of 4 or 5 or 6 or 7 years, which is what they are likely to do under the current contract policy and extension policy.

These sales will not all expire and be defaulted in the same year or the same time. They will be spread out over that kind of a timeframe.

Senator **Hatfield**. We are currently at 11.3 billion, are we not, in the current fiscal year as far as timber sale figures?

Mr. **Crowell**. It is 11 for this year.

Senator **Hatfield**. Do you have any idea of how much of that has been in the process of being harvested?

Mr. **Crowell**. Probably very little of the volume that was actually sold this year would be harvested. We did——

Senator **Hatfield**. Let us postdate that then by 2, or 3, or 4 years, whichever the contracts are, how much of that is being harvested?

Mr. **Crowell**. I would suspect that all of it would be harvested. Because that timber has sold at a much lower average price than has the timber currently under contract. And it is likely to be the timber harvested first in these poor markets, hopefully along with other volumes which have already accrued. So there would be a mix and this averaging process would begin to take place.

Now, that is, of course, totally dependent upon the market demand in the next several years when that 11.0 billion will actually be harvested.

Senator **Hatfield**. Do you have an estimate of the volume which was not economically harvestable today?

Mr. **Crowell**. Under figures that were developed by the Forest Service as of March, we had about 18 billion board feet in region 6, that was under contract. Our estimate was that about a third of that was currently unharvestable because of the high stumpage prices at which it had been bid and the current low market prices for the product.

Senator **Hatfield**. The administration's policy is we can help in their default by, hopefully, softening the payment program for default.

Mr. **Crowell**. That is one suggestion, Senator, but what we are really expecting is an improvement in the market for wood products over the next several years.

Senator **Hatfield**. But do you realize the number—when did you last talk to some inland operators in the timber industry who might be called typical, independent timber operators?

Mr. **Crowell**. Probably, about 5 or 6 weeks ago.

Senator **Hatfield**. Did they indicate to you how long they could hold on?

Mr. **Crowell**. The situation that was depicted to me was grim.

Senator **Hatfield**. Yes; it is grim, and let me say, John, that that is not just because of any particular case you may be talking to, but let me say to you that is true throughout the whole region and not only our region, but throughout other parts of the country as well.

I just feel that it is really, what we are suggesting here is a shylock, we are going to get the last pound of flesh we can get even in a default situation. Because, first of all, there is the role of liquidators, squeeze out the last bit of flesh you can get from the dying corpse.

And that, to me, is not a solution. It is not a policy worthy of this committee's more than passing consideration. That is to play the role of the shylock. But I also was amazed that you in this testimony indicated that it was a difficult task to get the industry into some kind of consensus because whatever we might do to help the northwest might be harmful to some other part of the country or some other segment of the industry.

Senator McClure and I represent two segments of the industry. Senator McClure and I have been working together in good faith to try to work out a solution that will not help one at the expense of the other and try to help the industry. Yesterday, I presided over many hours of testimony. We had Mr. Williams and others representing the southern county and States. Let me say there were States who appeared here and they said we are rivals and competitors but we want to be helpful and there was almost unanimous response from all of them suggesting, various segments of the industry, the idea they expressed in the hearing was that we want to see the end of it.

The message I get the administration says it is a difficult problem of the various segments and they are rivalries and we do nothing. That is not at all what I got from the industry yesterday. And I hope you you will have a chance to have your staff review the testimony from yesterday or give you a briefing.

I was really very encouraged. Like yourself, I am aware of the tremendous divisions in rivalries within this industry. It is a fractured industry, but in this situation the devastation to this industry nationally is so great that they realize that they are all going to perish under the present policies and under the present interest rates and the economic problems that we have.

So, I really feel that the reflection of that view is not in keeping with what the attitude is within the industry.

Maybe that has happened only in the last few weeks. I would like to suggest you update that understanding of the attitudes of the east and west and all of the other parts of the industry.

One last point I would like to, and you know I am not going to prolong this, because I am not very pleased with this issue in the administration, in case you have not noted that impression, but you open up this business of log exports, my what a can of worms that is.

You speak of the original Morse amendment and the annual Morse memorial amendment be put into the appropriation each year. You really do not believe that we, do you, that we can open that up and merely say, if you cannot sell it, if they cannot crank up our mills to produce timber for this country's needs, we can sell the raw material to Japan or some other foreign bidder, do you really think that is a solution?

Mr. **Crowell**. Senator, I do think it has some potential for contributing to the solution. I think that critical to that being a contributor to the solution, however, is the commitment that the National Forest and the BLM lands begin to be managed so that they contribute more proportionately to the wood needs of the country than they have in the past and for which they have the capability.

We have the potential in this country to be literally the softwood wood basket of the world if we manage our forests accordingly.

And there is no reason why there should be a permanent ban on round log exports, provided our own mills have adequate assurance of raw material supply.

And I think we have the capability of providing that kind of assurance if we manage the Federal timber resources particularly in the west to the extent that we have the capability and for which they have the potential to be managed.

Senator HATFIELD. Of course, the Secretary does have some authority today to make that determination in exports in terms of species and what have you, does he not?

Mr. CROWELL. Yes; that is true. If the species is surplus, we do have that kind of administrative authority and in fact we have out for comment right now a proposal that would consider declaring some species in surplus at the present time.

Senator HATFIELD. One last question, let me understand the bottom line, does the administration propose any grant of authority to these management agencies to terminate or to extend the contract?

Mr. CROWELL. The administration is opposed to price rollbacks. We are opposed to contract terminations and we at the present time do not favor a contract term adjustment.

Senator HATFIELD. Those are difficult words to hear. I am sure this is difficult to say. I want you to know my continued high regard of you and for the difficult position and role that you are in. And I recognize, again, that OMB has certainly gone further than merely auditing and accounting for expenditures and causes related to that and I recognize, again, that heavy hand that Government—I have been in Government—that exists here that we have created a monster, this whole system of ours, OMB.

They have demonstrated the most consistent record of visible errors on timber economics that I have ever witnessed of any single agency of the Government. This goes back to 16 years. I have never known a time OMB had demonstrated the slightest comprehension on matters relating to natural resource management and management of that resource economics.

And they are maintaining a consistent record through Democratic and Republican administrations alike. They have an extraordinary recruiting program. I don't know where they go to find those people who staff their offices in the areas of natural resources. That is just a gratuitous observation, Mr. Chairman.

The CHAIRMAN. I rather enjoyed it. The only, possible dissent I could have is that you left out the Library of Congress. I understand you covered that subject yesterday. I was hoping that maybe I would hear the encore. [Laughter.]

Senator HATFIELD. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. And while I am tempted, I don't intend to take the time today to go further into the subject of log exports. But, I do believe that every member of this committee is very much concerned with the multiple issues that are involved. As was indicated earlier, in the hearings yesterday, the Senator from Arkansas, a member of this committee, Mr. Bumpers, indicated that the issue of effective road credits is a matter in which he is very interested.

As my colleagues indicated today, sometime we are going to have to address that question, the question of the subsidy of the public interest in the management of the public lands being borne by the timber operators. It is, I think, a worthy reason for us to be considering that in connection with the other adjustments that might be necessary in order to keep the industry alive. And I share my colleague's, from Oregon, concern with respect to what happens to this industry as we struggle to find some answer. Maybe we are going to have to come up with something that will allow us to relate annual sales rates with annual production rates with annual demand rates in a much more defined way than we do now with respect to sales volume and, particularly, what is projected over several years and the market fluctuates more within that timeframe than, obviously, we can accommodate easily.

I appreciate the dilemma that you face, as you come here to testify, the same dilemma that we have been struggling with in other respects trying to come up with something with which the industry and its various segments can live with and I had hoped that we were going to be able to reach that point and hoped to be able to before now, been able to convince even OMB, that is if there is some way of reaching them.

Senator MELCHER. Mr. Chairman, I have three questions. Mr. Secretary, could you provide us with the language, I don't think you have yet, it certainly is not in your testimony, on what you would recommend to aid the possible default?

Mr. CROWELL. Yes, we can do that. We will do it.

Senator MELCHER. Second, could you provide an analysis of the impact on counties, of what counties might expect?

Mr. CROWELL. From default, Senator?

Senator MELCHER. Whatever you project might happen.

Mr. CROWELL. As I indicated in response to a question from, I think, the chairman, we really do not have any sound basis for making a projection of that sort.

Senator MELCHER. Do you think that is impossible at this time?

Mr. CROWELL. Yes, sir.

Senator MELCHER. Even to speculate?

Mr. CROWELL. Yes, sir, we could make ranges of assumptions, but I don't think it would be particularly helpful.

Senator MELCHER. The third request is when you send us up the proposal for default, whatever you are going to propose on that, that you also send us up what can be done to modify timber sales to better suit the current markets.

Mr. CROWELL. That goes to the inquiry you made earlier. Yes; we will try to be responsive to that.

Senator MELCHER. Thank you very much.

The CHAIRMAN. I think it might be helpful if we would put in the record at this point the figures that have been supplied to us with respect to the number of timber sales that have been extended under the 1980 waiver of extension criteria and those under the 1981 waiver of extension criteria.

Do you have any further information that, let me put it in a different way—if you have any further statistical information that would help us in looking at that question, if you could provide it for the record.

Mr. **Crowell**. Mr. Chairman, we would be happy to have the Forest Service staff confer with the committee staff to make sure that the information you have is up to date and is all of the information we have on this subject.

The **Chairman**. I thank you, because I think it is difficult for us to project what the defaults would be, but at least we could look at sales and volumes by region and maybe make some kind of an estimate of perhaps, and I recognize the difficulty you would have in doing it, but we need to have some of that, of the out side parameters of the discussion before us.

Mr. **Crowell**. I am sure the BLM would also be willing to be responsive to that.

The **Chairman**. Thank you very much. I appreciate your testimony here today.

We will next hear from a panel, Mr. Fred Sohn, president of Sun Studs, Inc., Roseburg, Oreg.; Mr. Lynn Newbry, Medford Corp., Medford, Oreg.; Mr. John Davis, Willamette Industries, Inc., Portland, Oreg.

STATEMENT OF FRED SOHN, PRESIDENT, SUN STUDS, INC., ROSEBURG, OREG.

Mr. **Sohn**. My name is Fred Sohn. I am president and founder of Sun Studs, a small business of forest products located in Roseburg, Oreg. I don't know for how long anymore. I have got to say at least I am deeply distressed and shocked from what I heard from Secretary Crowell. It may mean the end of a small independent business in our area.

I don't know if what I have to add is very pertinent under these conditions unless, hopefully, Mr. Chairman, we can get your committee to come to grips with this kind of a problem.

The **Chairman**. Mr. Sohn, let me assure you at the outset that what you have to say is very relevant. We will hear it, consider it, and we may end up with some mild or sharp disagreement with the administration.

Mr. **Sohn**. Thank you, Mr. Chairman.

The **Chairman**. Your full statement is a matter of record and I would invite you to summarize the pertinent points.

Mr. **Sohn**. We are a small business with about 400 people that started in 1949 and has operated continously during that period. We are considered to be a high technology operation. The community we are living in due to the problems of the industry is distressing.

I would like to indicate that 83 percent of total manufacturing employment and 90 percent of the payroll comes from the timber industry. It is also important to note today that 22 percent of unemployment or higher is being experienced in our county. And the income of the people who work in the forest product industry has been cut in half.

I also might state that bankruptcies have almost doubled in the last 3 years from 128 to 250 last year. Losses at this moment in a company like ours that is cleaning up timber inventory and bits and pieces of timber sales is running in the neighborhood of $250,000 to $500,000 a month.

It is very difficult to see, as suggested by the Secretary awhile ago, how we could absorb or meld in any of the sales that are overhanging our company or our industry. These losses, obviously, have depleted the cash reserve. It would also indicate that any money we have made in the past is being used up to keep our people working and employed and doing, to some extent, our job in our community to keep it somewhat healthy.

It is also obvious that the conditions that have been outlined and really clarified for me, personally, that we should default our timber sales immediately and don't wait for the end of the term of the contract.

The massive depletion that we are undergoing today in trying to operate under the losses that we are experiencing to keep our people employed is a little bit ludicrous because it would not do any good to negotiate a company that is bankrupt tomorrow with the Government.

And I do want to say also that the condition that we are experiencing today and it has been said many times is due to the Government, due to policies that we are not responsible for. We did indicate many times also that any relief should allow purchase of public timber not to displace production elsewhere but that simply the western timber industry retain its reduced share until the market is improved.

The objective of relief should be to maintain a viable western timber industry that could respond to new market demands. So, I also discussed somewhat the points that during the negotiations that with various parts of the country, I was fortunate to be involved in the last several months and one was certainly a no-fault turnback provision which some of us thought would be very equitable as a solution.

Because this timber could be building up a timber reserve, if I might use that word, and could be used if a healthy industry returns again, to help stabilize the prices and lower the cost to consumers. Under the conditions that I would visualize that the Government will receive its assets back, will receive the standing timber back, many times in an improved fashion. And we as an industry, or a company, will not receive any moneys or credit but will pay the highest price for its replacement for bidding competitively on new timber sales.

I don't see how anyone can call that a subsidy. If we would default, and I see no other avenue open after this meeting today, it would force the largest quantity of distressed timber on the market at distressed prices. And everybody will be a loser. And it will not be 3 or 4 or 5 years, as the Secretary indicated.

The volume under default would reach the market almost immediately. Default would occur this winter, next year and it would reach massive proportions then. We also talked about contract term adjustment which would in addition to termination play an important role and would be needed.

Contract modification we felt had created problems in terms of a declining market and I indicate here that in the last 4 months some of our major products have declined another 36 percent, we feel due to too much low-priced timber, low-priced feed timber, Mount St. Helen's timber that has reached the market.

So our company's position would indicate that we must terminate 60 percent of our company's timber inventory which would amount to approximately of a yearly loss $20 million, another 23 percent would create a loss of $10 million and only 17 percent of our timber we have under contract today. We may break even today.

Simply adding extensions to contract time to these timber sales will not solve the problem. Rollback of prices with harvesting deadlines will certainly reduce the potential losses, but the effect of forcing more wood on this market will only drive finished product prices lower and further aggravate the situation. No-fault turnback appears to us the best possible solution.

If we are to survive we need to return to the selling agency at least 60 percent of our contracted volume. Another 23 percent of the contracts will need at least 5 years added time to fit them into the limited market place. Price rollback could logically be applied to those contracts which have been partially logged.

The above scenario would allow us to work out from under the burden we now have. Anything much less than this amount of relief would leave us no choice but to default a major part of our Federal contracts.

Thank you, Mr. Chairman. I would be glad to answer any questions.

The CHAIRMAN. Thank you very much.

Next we will hear Mr. Newbry.

STATEMENT OF LYNN NEWBRY, VICE PRESIDENT, MEDFORD CORP., MEDFORD, OREG.

Mr. NEWBRY. Thank you, Mr. Chairman. I will be very brief. My name is Lynn Newbry. I am vice president of Medford Corp. I am presenting this statement on behalf of our company. I have to confess to you, Senator, that I am a little bit like the boy who dropped his bubble gum on the henhouse floor, I am confused at this moment as to exactly how to proceed.

We obviously did not have the benefit of the administration's proposal when we came to Washington. We learned of it just a few minutes ago. In my prepared statement, which was entered into the record yesterday, we pointed out that we were not here to ask for any kind of bailout or to ask for any special privileges or any appropriations out of the public treasury, but rather that we were here because we were parties to contracts with the Government, which we could not fulfill due to conditions beyond our control.

And we suggested that prudent business practices would dictate that when one finds himself in that position that one would renegotiate or revise the contracts in some fashion to the mutual benefit of both and to the preservation particularly of the party who is the customer in the contract.

I believed when I prepared this statement that it was a valid statement. I still believe it is a valid statement. I am a little bit surprised that the administration would suggest to you that this was a bailout. It appears to me they read the Washington Post with a great deal of confidence without really understanding the problem.

The administration has just told this committee that there is no consensus within this industry, that everyone he talked to has a different idea. Senator, because of the efforts of you and Senator Hatfield, the gentlemen who are here at this table with me are members of companies who devoted a great deal of time and effort into finding consensus within the industry. We have worked very closely with the gentleman you appointed at considerable expense, incidentally, to our respective companies in a spirit of coming to a solution. We believe that the position paper that was presented to this committee earlier represents a consensus within this industry, more consensus by far, I think, than the consensus that or than the solution that the administration has offered.

I think if you would poll this room which contains every element of our industry, there would be greater agreement upon the proposal put together by your committee and Senator Hatfield's committee than by the administration.

I think, Senator, you and the other members of this committee recognize that the proposal that was made to you by the administration simply will not solve any problem. They remind me more of bill collectors than of anything else. I happen to serve on the board of a small bank in Oregon and we certainly do not treat people that are unable to pay for reasons beyond their control with near the kind of vindictiveness that appears to be presented by this administration.

I think it is obvious to you, Mr. Chairman, that some of us were pretty upset, the same as you were, when we heard it. But I think the real policy decision that faces you and Members of the Congress is contained on page 2 of my testimony, when I say that the real policy decision facing this committee is a question of whether the Government is going to insist upon enforcing timber purchaser contracts with bid prices far above the current value at the expense of the financial well-being of its best customer or is the Government willing to modify or terminate these contracts consistent with good business practices to maintain the economic viability and insuring in many cases the very survival of companies within the forest products industry with very little, if any impact, on the Treasury of the United States.

Senator, I think in the long run it would seem that this latter course would best serve the public interest by maintaining the productive capacity of industry. And I might digress here to tell you that I have always been of the opinion that this administration wanted to increase and protect the productive capacity and it appears today they have changed their minds.

Anyway that is to maintain the highest level of employment for people who work within this industry. Productive capacity in houses is the same to meet the growing demand among millions of young people who dream the great American dream of homeownership.

I think it is important to our Government to maintain this dream in the minds of young people and all citizens and that we should maintain this industry in such a shape that we can be participants in the fulfillment of that great American dream.

Thank you, sir.

STATEMENT OF JOHN W. DAVIS, GENERAL MANAGER, WESTERN TIMBER & LOGGING OPERATIONS, WILLAMETTE INDUSTRIES, INC., PORTLAND, OREG.

Mr. DAVIS. Mr. Chairman, I am John W. Davis, general manager of Western Timber & Logging Operations for Willamette Industries, Inc., of Portland, Oreg. Our firm is a medium-sized forest products company with plywood plants and sawmills located in several small communities, mostly located in northwestern Oregon, northern Louisiana, and southern Arkansas.

Our company was asked by Senator Hatfield to join with other companies in Oregon and with companies that you had selected from Idaho to help weld a consensus. I was very dismayed in the earlier testimony to hear that we apparently have failed, at least in the eyes of the administration in that task.

I submit to you that we had a good deal more success than has been credited to us.

As the other witnesses here at the table have testified, we have unanimity or near unanimity in the industry on the No. 1 question, is relief necessary. Where we have had disagreements they revolved around the kind of relief that was necessary and I submit to you further most of those disagreements have been resolved at this date.

There are some areas of relief that some people would like to substitute different numbers for, but the main concepts that are involved in this relief package have been accepted by the great majority of the industry. So we are a long ways down the road as an industry toward welding a consensus that can fly in Congress.

I have submitted my testimony for the committee yesterday. I just would like to highlight one or two points of that testimony for your benefit here today. We did not get involved in this high bidding, bizarre bidding, I think it has been characterized, because we wanted to.

Our company, along with most companies in the industry tried to live on a 3- to perhaps as much as a 5-year inventory of Federal timber. We have purchased over the years within probably 15 or 20 percent of the average the same amount of timber for years and years and years.

We bid those what are now termed to be excessively high prices because we knew we had to have the timber to respond to the market 3 to 5 years down the road. If we did not have it, we would not be in business. So we were forced to those levels by the intense competition for that timber.

The reasons behind that intense competition are many and varied, but most of them can be laid at the feet of the government. We had gone through years and years of high and continuing inflation. Government economists were predicting that the decade of the eighties would be the decade of houses. We had to gear up and be prepared to supply the building products for that demand at a rate that we had never ever supplied before.

The interest rates had been favored by the lending community, interest rates for housing. The supply of timber showed no signs of increasing. Although the Government is a great holder of timber in the West, it gave no indications, in fact, it gave indications that it might even decline in the future.

All of these things led to the rapid buildup in bid prices that we all experienced. Now, the Government that we helped elect and that Assistant Secretary Crowell represented here today has changed those policies. Some of those changes are for the good, perhaps all of them are.

We no longer have a bias for housing in our Federal Government. We have reversed policies on inflation and in fact have started bringing inflation down. Interest rates have soared. Housing is now very, very low in the list of national priorities. We, the timber industry, who, if you will, are sort of partners with the Government in this timber supply business, have been left holding the bag that the Government helped us fashion. That bag is now overflowing with these timber sale contracts that are too expensive to operate and they will be too expensive to operate in the foreseeable future.

If we get no relief from these unrealistic contracts, massive defaults are going to occur. And if the Government is willing to finance those defaults, as suggested by Secretary Crowell, and charge us interest on that financing, I submit that the Government of the United States is going to own most of the mills in the western United States in a very short time.

Our local governments, cities, counties, and school districts are going to be subjected to economic havoc if we don't get relief.

There is no question that some sort of relief from the most onerous of these contracts will not only help these companies but also the citizens of our timber-dependent communities and all levels of Government. We are not asking for a bailout. We are asking for contracts with the Government to be modified to compensate for changing conditions that the Government brought about.

Such contract changes are not unique in business, nor are they unheard of in Government. Long-term procurement contracts are often modified when unexpected conditions arise. It is in the best interest of both parties to these contracts to see that orderly modification of the terms occurs rather than plunging all affected parties into the chaos that will surely ensue if no changes are made.

The questions that I thought were going to be considered today are what kind of relief is appropriate. We feel that, and by saying we, I am speaking for a much larger group than just Willamette Industries, but much of the industry, we feel that such relief should incorporate provisions for termination for a portion of the volume under contract.

We have arrived at a number, 40 percent. Forty percent is a rather loose number but it has some basis. It represents roughly the overburden or the excess volume under contract that is out there today and we think it makes sense to terminate that excess volume.

Along with that termination would be a clause for extension of the contract term on the sales that are remaining. That extension is necessary to help work off or to give time to work off that volume of still quite high priced timber, so it can be blended in with cheaper timber that is purchased in place of the 40 percent.

The CHAIRMAN. Could I interrupt and ask you a question, because it occurs to me that maybe there are some problems that we could approach in even a different way than came out of the compromise. That is to relate sales volumes to production volumes to market consumption.

Because I think you do make a good point that the volume has dropped. As a matter of fact the 1982 estimated harvest level in the budget came up to us with 10½ billion board feet. The currently estimated is 40 percent or a little better below that.

There is some correlation. The people on the other side also have to be a little concerned. On the other side of that particular issue is that if we terminate those contracts and extend the balance and readvertise some short-term, low-cost sales that others who do not have contract termination will be faced with total market demands being satisfied out of a low cost, new contract. Maybe there is a way to relate those together.

Mr. DAVIS. I share your feeling that there probably is something that can be worked out, Senator McClure. Time has not permitted us to grapple with all of the intricacies of those kinds of solutions to the problem. One of the things that seems to me to have been misunderstood in the whole process is the fact that most western timber is sold in contracts of 3 to 5 to 6 or 7 years and if we start gearing sales levels in, let us say, 1983 to removals in 1982 or 1983, we run the real risk of finding ourselves short of timber in 1986 or 1987 when that timber would be harvested.

And I don't know off the top of my head how to get around that dilemma, but I think your suggestion has merit.

The other considerations that we came to, the other conclusions that we came to in these meetings was that such legislation should contain provisions to preclude the flooding of the West with low-cost timber, as you recognized is a problem, and thus disrupting the marketing patterns that have been built up over many, many years, our relationship with the South, with the inland empire and with other parts of the country.

So the Forest Service and the Bureau of Land Management will have a difficult job but one that can be accomplished in metering this terminated timber back into the marketplace in such a fashion that this disruption does not occur.

In conclusion, I would like to emphasize a point that I am sure has been emphasized enough today, but I will do it anyway, failure to grant this suitable relief is going to result in massive defaults on timber sale contracts and the ultimate bankruptcy of many companies.

These defaults and bankruptcies will destroy the economic base of many, many communities throughout the Western United States. This gloomy scenario does not have to occur if the Government will right this wrong with a suitable relief package.

Thank you.

The CHAIRMAN. Thank you very much. Might I ask each of you in turn how much timber you operate on other than Federal contracts?

Mr. DAVIS. In the case of Willamette Industries, we are slightly more than half of our timber comes from sources other than Government sources.

The CHAIRMAN. Mr. Sohn.

Mr. SOHN. We operate under normal market conditions, we approximately operate 100 million board feet a year of which 90 million feet is Government timber. We are 40 percent produced at a reduced level now.

Mr. NEWBRY. Our normal usage would represent 60 percent public timber and about 40 percent other.

The CHAIRMAN. Does that other include State?

Mr. NEWBRY. Not in our case, no, sir.

The CHAIRMAN. Thank you all very much for your testimony today and I might add for your testimony yesterday as well. Thank you very much.

We will grant a 5-minute recess at this point for the benefit of the one person who has no rest during all of this testimony and that is our stenographer.

[Whereupon, there was a 5-minute recess.]

The CHAIRMAN. The committee will come to order. We will next have Mr. George Cheek, vice president, Potlach Corp. from San Francisco, Calif.; and Mr. Tim Mueller, Bennett Lumber Co., Princeton, Idaho.

Before doing that, I might say on the record what I have said to one or two individually, I think the rumor was around that I was going to have to leave to go to a White House meeting at 5:30 p.m. There is such a White House meeting, but there are others who can meet on that subject there and obviously there is not someone else to take this testimony at this hearing here. So I am going to stay here.

And we will afford everyone who is on the list the opportunity to be heard. Thank you.

STATEMENT OF GEORGE C. CHEEK, SENIOR VICE PRESIDENT, PUBLIC AFFAIRS, POTLACH CORP., SAN FRANCISCO, CALIF.

Mr. CHEEK. I am grateful for that and I am sure the others in the room are also grateful, Senator. Thank you.

I am George Cheek. I am service vice president of Potlatch Corp. We are headquartered in San Francisco and we manufacture a broad range of forest products in Minnesota and Arkansas as well as Idaho. We buy substantial quantities of timber from other ownership including the Federal Government.

Many viewpoints are being offered in these hearings, but I believe that we are agreed on three things. The first is the whole industry is suffering from the housing depression and, second, only an improvement in that market, the housing market, can improve conditions in a meaningful way. Finally, none of the solutions that is being offered provide true equity. I think that is part of what the argument is about.

Now, the debate over the legislative proposals before this committee illustrates this last point as well, but it already is clear in some of the relief measures that already are in effect.

California, Oregon, and Washington have modified the application of timber contracts on their lands to help manufacturers in those States. The Forest Service has liberalized its extension policy, eased its deposit rules and in at least one area, offered shortterm sales. These have already been described.

And the Bureau of Land Management on a de facto basis has provided many of the same benefits to its buyers. There have been positive results, but there also have been some negative results.

On the positive side, extensions have bought time for everyone who has used them. In the Douglas fir region, this also has helped increase the uncut inventory for companies there. I am listing this on the positive side because buyers there still are contracting for Federal timber at high ration Prices the last 6 months have been bid about 100 percent above the appraised price, on an average basis.

Finally, on the positive side, these shortterm sales apparently have allowed some mills on the coast to reopen.

The negatives have affected other regions. Our own mills in Arkansas are feeling pressure from Western production, but there are other witnesses here who have a great deal more information on that than I have.

We have 15 wood products operations in Idaho. The latest report I have shows five of them are shut down completely and all of the others, including three plywood operations are on curtailed schedules. About a third of our employees, about 900, are working full time. Another third have some part-time work and the remaining third are out of work. They are laid off.

Plywood from the reopened mills on the coast now is coming into our markets at a price that is nearly $20 per 1,000 square feet below what we can accept. And we fully expect that we are going to have to close some more plants and reduce our Idaho employment even further. Other mills in the inland region probably face the same prospect.

Some witnesses have suggested that there is an industry consensus on relief measures. A consensus requires at least grudging agreement from all of the parties, and I think it is clear, and I think we have made it clear to you, Senator, that we don't share that consensus.

There have been a number of proposals with support outside the Douglas fir region. Contract term adjustment is the only one that is included in a legislative proposal. Each of the others was rejected pretty much by the proposed termination price rollback.

There are three legislative proposals. Your bill proposes contract term adjustment. The other bill includes this feature, but it also would authorize broad and unspecified, programs of price rollback and contract termination. The advantages and disadvantages are similar to those of present relief efforts, but they have enormously greater impact.

The advantages of price rollbacks would be the greatest on the coast of Oregon. One industry estimate puts the advantage at 81 percent and Congressional Research Service puts it at 65 percent. The purpose of this measure is to allow more coastal mills to operate and they would.

The disadvantage would be felt in every other region of the country. The market for products is inelastic and the coastal mills would take employment and markets from others and counties there would benefit at the expense of all other timber-dependent counties.

The list for contract termination is similar but longer.

We are told that some mills, especially on the coast, face bankruptcy without termination. Presumably, they would survive but would mills elsewhere then face bankruptcy because of lost markets? Other companies in that region would escape default and reduce the average price of their inventory.

The negatives are numerous. The cost is high. The proponents of termination presumably would use the conservative figure, but they have put the price to the Government of $1.05 billion for terminating just 40 percent on the west side of region 6 alone. The Forest Service estimated its losses would be $1.3 billion.

This does not include BLM figures and perhaps that is why the Congressional Research Service came up with the figure of $2.6 billion. Even a fraction of any of those figures would be very high.

While the positive impact is highly localized, the negatives are widespread. A Forest Service analysis indicates that private owners in all areas would lose values and income and that the Douglas fir region would gain both markets and employment at the expense of all other softwood regions of the country.

The Congressional Research Service concluded that the Douglas fir region would receive $2 billion of the estimated $2.6 billion in benefits and that this region was not the hardest hit in the country. Areas outside the Douglas fir regions, according to CRS, would suffer even more than they are now.

Some of the same reasoning could be applied to contract-term adjustment, because it would have its greatest use in the Douglas fir region, but after all that is where most of the contracts are.

We believe that price rollback and contract termination are so grossly inequitable that they should be rejected especially in the undefined form that is offered in the legislation before you. We support your approach, Senator, to contract-term adjustment as the nearest thing we have seen to equity.

That is the conclusion of my statement and I will answer questions.

[The prepared statement of Mr. Cheek follows:]

TESTIMONY OF

GEORGE C. CHEEK
SENIOR VICE PRESIDENT, PUBLIC AFFAIRS
POTLATCH CORPORATION

BEFORE THE

SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

AUGUST 17, 1982

I am George Cheek, a senior vice president of Potlatch Corporation. We are headquartered in San Francisco and manufacture a broad range of forest products in Idaho, Minnesota and Arkansas. We buy substantial quantities of timber from other ownerships, including the federal government.

Many viewpoints are being offered in these hearings, but I believe we are agreed on three things. First, the whole industry is suffering from the housing depression and, second, only an improvement in that market can improve conditions in a meaningful way. Finally none of the solutions being offered provide true equity.

The debate over the legislative proposals before this committee illustrates this last point, but it already is clear in the relief measures now in effect.

California, Oregon and Washington have modified the application of timber contracts on their lands to help manufacturers in those states. The Forest Service has liberalized its extension policy, eased its deposit rules and, in at least one area, offered short-term sales. The Bureau of Land Management, on a de facto basis, has provided the same benefits to its buyers. There have been positive results--but also negative ones for our industry.

On the positive side, extensions have bought time for everyone who has used them. In the Douglas fir region, this has helped increase the uncut inventory for companies there. I list this on the positive side because buyers there still are contracting for federal timber at high ratios. Prices the last six months have been bid about 100 percent above the appraised price, on an average basis.

Finally, on the positive side, these short-term sales apparently have allowed some mills on the Pacific Coast to reopen.

The negatives have affected other regions. Our own mills in Arkansas are feeling pressure from western production, but other witnesses here have far more information than I do about the South.

We have fifteen wood products operations in Idaho. The latest report I have shows five of them shut down and the others, including three plywood operations, on curtailed schedules. About a third of our employees work full time, about a third have some part-time work and the remainder are not working.

Plywood from the reopened mills on the coast now is coming into our markets at a price nearly $20 a thousand square feet below what we can accept. We may have to close more plants and reduce our Idaho employment even further. Other inland mills probably face the same prospect.

Some witnesses have suggested there is an industry consensus on relief measures. A consensus requires at least grudging agreement from all the parties, and I think it is clear that there is no agreement of any kind.

There have been a number of proposals with support outside the Douglas fir region. Contract term adjustment is the only one that is included in a legislative proposal. Administrative action was possible to make all federal contractors equal on extensions. Limited Termination--but combined with harvest limitations to reduce the advantages for the Douglas fir region--was suggested. Emergency federal loans were proposed for all timber-dependent counties, to be repaid from future timber receipts. Each of these efforts at compromise was rejected by the proponents of termination and price rollback.

There are three legislative proposals. Senator McClure proposes contract term adjustment. The other bill includes this feature, but also would authorize broad, and unspecified, programs of price rollback and contract termination. The advantages and disadvantages are similar to those of present relief efforts, but have enormously greater impact.

The advantages of price rollbacks would be greatest on the coast of Oregon. One industry estimate puts the advantage at 81 percent, and the Congressional Research Service puts it at 65 percent. The purpose of this measure is to allow more coastal mills to operate, and they would.

The disadvantage would be felt in every other region of the country. The market for products is inelastic and the coastal mills would take employment and markets from others, and counties there would benefit at the expense of all other timber-dependent counties.

The list for contract termination is similar, but longer.

We are told that some mills, especially on the coast, face bankruptcy without termination. Presumably, they would survive--but would mills elsewhere then face bankruptcy because of lost markets? Other companies in that region would escape default, and reduce the average price of their inventory. The affected region would face a more optimistic future, and we would avoid any possibility of a glut of timber being thrown on the market from defaulted sales although the liklihood of this is very small. The argument is made that this could protect the values of timber owned by private individuals.

The negatives are substantial.

The cost is high. The proponents of termination presumably would use a conservative figure, but they put the price to the government at $1.05 billion on the west side of Region Six alone. The Forest Service estimated its losses would be $1.3 billion. This does not include BLM figures, which may account for the Congressional Research Service estimate of $2.6 billion. Anything close to those figures is high.

While the positive impact is highly localized, the negatives are widespread.

A Forest Service analysis indicates that private owners in all areas would lose values and income, and that the Douglas fir region would gain both markets and employment at the expense of all other softwood regions of the U.S. The Congressional Research Service concluded that the Douglas fir region would receive $2 billion of the estimated $2.6 billion in benefits--and that this region was not the hardest hit in the country. Areas outside the Douglas fir regions, according to CRS, would suffer even more than at present.

Some of the same reasoning can be applied to contract term adjustment.

Adjustments would be of some value in every public timber region, and would provide time for the market to recover. This would avoid defaults, with its possible flooding of the market with resales, and the financial penalties to be paid by defaulters. It also would preserve the value of both government contracts and timber owned in the private sector.

The disadvantages come from a strengthening of the economic position of some coastal mills relative to mills elsewhere, and a reduction of the future market demand for private timber. This probably would hurt values. The largest negative, however, may be in the continued buildup of swollen inventories by west coast mills. Their objective is to reduce their inventory, they claim, but they are building inventory by buying large quantities of timber--much of it surplus to their present needs--and are bidding at average ratios close to double the appraised prices. For the first six months of this year, the largest three buyers of BLM timber in Oregon paid nearly double the appraised price. On western Oregon Forest Service land for that period the largest volumes were purchased by companies whose bids averaged 2.3, 2.5 and 2.2 times appraisals. In western Washington, comparable figures for the top three were 4.7, 6.9 and 2.0 times the appraised prices. Inventory building obviously has value, if bidders are willing to pay those prices today.

Contract term adjustment, in addition to protection from default, will preserve that inventory, giving manufacturers in the coastal region a huge overhang they can throw on the market when conditions improve. The South has asked for a cap on sales, but attempts to agree on a figure have failed.

Why not set a temporary cap equal to the annual allowable cut in Region Six--but subtract from it a volume equivalent to the extended sales that mature in a given year? This would allow them to retain their inventory, but would protect the rest of us from a huge buildup.

We believe that price rollbacks and contract termination are so grossly inequitable they should be rejected, especially in the undefined form now offered.

We support Senator McClure's approach to contract term adjustment as the nearest thing we have seen to equity.

The CHAIRMAN. Thank you very much. Are either of you gentlemen under time constraints?

Mr. CHEEK. I am not, no.

The CHAIRMAN. We have a vote on the floor and if it is all right, I will recess, go vote and return for the balance of the testimony. The committee will stand in recess.

[Whereupon, there was a recess.]

The CHAIRMAN. The committee will come to order.

Mr. Mueller.

STATEMENT OF TIM A. MUELLER, VICE PRESIDENT, BENNETT LUMBER PRODUCTS, INC., PRINCETON, IDAHO

Mr. MUELLER. Thank you, Mr. Chairman. Mr. Chairman, my name is Tim Mueller and I am vice president of Bennett Lumber Products, Princeton, Idaho. Today I am representing our company which has three sawmills along with another company Idaho Forest Industries, Coeur d'Alene, Idaho, who also has three sawmills.

Both companies I represent today depend on national forest lands for the majority of their timber supply. And between each company we purchase timber in both regions 1 and 6 on 11 national forests in Oregon, Idaho, and Washington.

As many have already testified before this committee, the economic condition of our businesses is slight and our order files have atrophied to a small fraction of their former size. Unemployment, Mr. Chairman, in our inland region is rampant and those communities dependent upon our industries have suffered greatly.

Given this position of distress you might find it odd, Mr. Chairman, that we do not come today to support Senate bill 2805 as introduced by the senior Senator from Oregon. Quite simply, Mr. Chairman, S. 2805 will do nothing to relieve our timber industry inland.

Now 6 months ago, recognizing that one solution which would provide relief for one State would not necessarily provide relief for another, a working group of industry experts from Oregon and Idaho were summoned by both the senior Senators from those respective States.

This group, as proposed, was to seek a compromise on those regional differences pursuant to relief and submit their proposals to those Senators of this committee who sought them. After a series of many meetings and exhaustive, delicate negotiations, our industry had what we inland felt was a fair compromise to those differences we suffered between regions.

Yet, Mr. Chairman, when Senate bill 2805 was introduced, it only contained those provisions necessary in our opinion to provide relief to west side operators within the Douglas fir subregions. Those of us who operate inland would politely ask why.

In good faith, we inland have said repeatedly and testify again today that in asking Congress to achieve for us equity in relief this body must make ineffective purchaser credits on deficit timber sales effective. The concept of our request is simple. For many years, the Forest Service has for the most part provided access to public lands by constructing public forest transportation systems with the vehicle of timber sales.

When we operators purchase a timber sale, we by contract build these roads as mandated. We are reimbursed for the cost of the road construction with stumpage. The problem arises when because of market demand the stumpage values are reduced and there is quite often not enough value to reimburse we who build the public roads for our costs of construction. These types of sales in the industry are called deficit.

In inland region one in 1980 55 percent of the region's sale program was deficit. In fiscal year 1981 85 percent of the region's program was deficit and this year, Mr. Chairman, we fully expect the entire sell program in region 1 to be deficit.

This means that in order not to disrupt the orderly flow of raw material supply to our mills, we must purchase these deficit sales. But when we do it becomes axiomatic that we will pay the $50,000 a mile plus road cost to construct the public's transportation systems. In most cases, the $50,000 per mile plus cost of construction interprets into $60 to $100 per thousand board feet. And it is this cost, Mr. Chairman, that at this time precludes many of us inland from operating.

Therefore, we inland view Senate bill 2805 as a good faith effort to provide relief for those industries within the Douglas fir subregions; that is to by law allow termination of high-priced stumpage contracts and subsequent repurchase of that stumpage at much lower rates, would allow the coastal industries to go back to work.

But this committee has got to understand that the same privilege of termination without penalty when given to us inland does not provide any relief or return to full employment. Because in theory after we inland terminate our deficit sales, we would buy them back at the very same price for which we already purchased them once.

And we would still have to stand the cost of road construction because of the deficit. And in addition, many sales that our company has under contract which are unharvested we could not turn back under this privilege because we would forfeit the hundreds of thousands of dollars we have spent already to construct the public's roads.

Mr. Chairman, let me give the committee an example of what I am saying. Bennett Lumber Products, Elk City, Idaho division was closed October 1, 1981, because under market conditions at that time we were losing one-quarter of a million dollars a month. In June of this year, we reopened the mill because the market had increased slightly to where we could lose less money by operating as opposed to a continued shutdown.

However, the primary reason, Mr. Chairman, that we reopened the mill was because we were able to secure our timber supply from an 11 million board foot timber sale whereby the $500,000 road system was augmented with $466,000 of hard money.

That is, even though the sale was deficit, the cost of the public road was, for the most part, paid for by the Government. The 11 million board feet in this sale will allow that mill to operate for 7 months assuming that the market does not drop further. My point is, Mr. Chairman, that because the Government was willing to stand the cost for the public's roads, we are able to operate and the jobs in the dependent community of Elk City, Idaho, are termporarily preserved.

Mr. Chairman, the whole subject of relief has moved about the precincts of this country for many months now. We thank both Senators McClure and Hatfield for their dedication and efforts to preserve our troubled industry. But our company wishes to make our position very clear. That is we have not asked this body before, nor are we asking this committee now for relief.

We are simply saying this. That if termination relief is given to those coastal regions then it will prejudice our relationship with the coastal mills within the competitive marketplace and then and only then would it be necessary to relieve and restore our competitive status from this prejudice.

Therefore, we are telling you that after many months of researching ways to find equity in relief in order to preserve our competitive status, the only solution would be to have the Government stand the costs of constructing the public's roads by making ineffective purchaser credit effective.

If this is not done and S. 2805 passes, as now written, all this committee will have succeeded in doing is transferring the unemployment which now exists in Oregon to Idaho and Montana. Therefore, Mr. Chairman, although we will remain objective and openminded to the problems of those on the coast, we will not support termination relief as proposed in Senate bill 2805.

Thank you.

The **Chairman**. Thank you very much.

Mr. Cheek, you made some reference, as does Mr. Mueller to the fact that there was a long series of negotiations among the industry and I think it is fair to characterize it as the western region and the inland region and the southern region, the major three points of view.

I think it bears some repetition that growing out of that there was an accommodation to the points of view from various points. Many people on the west coast, many people in the industry were asking for 100-percent termination to surrender all of the contracts and start over. I think it would be fair to say the meetings produced a median point, not an arithmetic means, but at least an agreement that a portion of the contracts could be terminated if at the same time to accommodate the inland region, as Mr. Mueller has testified, there would be some financial accommodation to the needs of the inland region that was expressed in making the ineffective road credits effective.

I believe your company was one that did not support that.

Mr. **Cheek**. Not quite, Senator. We did participate very early and I believe that the last figure that I heard that anyone in my company had agreed to was something like 25-percent termination of sales contracted for prior to April 1, 1981, and then the next thing was presented was 60 percent of sales before October 1 and then suddenly it was 60 percent by January 1 and then somebody said they wanted more and we simply withdrew from the discussions at that point.

The **Chairman**. What was the position of your company with respect to the ineffective road credits?

Mr. CHEEK. There were two things about it. One was that we simply did not think it was a fair tradeoff. Now, I don't vouch for any of those numbers, the billion and fifty or the 2 billion or whatever they are, but they are large numbers.

And the largest number that has been estimated for ineffective road credits that could be made effective is 200 million. I don't care if you take half a billion or 750 million or if you begin go up to 2.6 million, if we should get ludicrous, but we felt in effect they were tradeoffs. Well, they simply were not fair tradeoffs, if the numbers were correct, and I don't think anything much was done about it.

The second thing about road credits that did not appeal to us, retroactive road credits were one thing where the Government might reimburse somebody for roads that they had already built. But we believe, and still do believe, that if future purchaser credits are to be made effective that the Forest Service will simply eliminate the sales that we now classify as deficit sales and the amount of timber available to us in the inland region and that goes far beyond just Idaho will shrink by that much and the timber available to us will be reduced.

And we don't believe that the risk of that is worth the advantage of those sales. If they are never put up, we never get the advantage.

The CHAIRMAN. I understand that point. I cannot help but notice what seems the anomaly that the environmental organizations are opposing the ineffective road credits for exactly the opposite reason.

Mr. CHEEK. That is right and I agree it is an anomaly.

The CHAIRMAN. I did not think you were in bed with them.

Mr. CHEEK. If we are, I had not noticed. I have not turned the light on yet.

The CHAIRMAN. You did suggest in your statement some different treatment for the third element of that balancing in those negotiations and that was the insistence of the southern region that there be some kind of a cap on production out of region 6, or at least out of the western portion of the region.

I don't recall that this particular balancing was discussed in those meetings, but I think it is worth following up on, some way to give assurances to the other elements of the industry, whether it be southern or inland that the buildup on inventory on the western side would not then come back in tremendous volume on the market at a time of their choosing.

Mr. CHEEK. One of the things that became obvious from the very beginning was that even if we in the inland area and the people on the coast could come to some sort of agreement that agreement could not become legislation without the agreement of the south and the cap seemed to be the sticking point.

Again, we were not in those discussions, the ones that you and Senator Hatfield conducted, but Tim's company was.

The CHAIRMAN. Mr. Mueller, it is fair, is it not, to go into the question of the temporary cap from the standpoint of your company. As I recall the negotiations you had indicated that you were quite willing to accommodate the demand of the southern producers with respect to the cap. Did you see the volumes from the western slope to be any kind of a threat to the inland producer without a cap?

Mr. **Mueller**. Senator, we did not see the volumes to be a threat unless the volumes that were turned back were sold in addition to the regular sales program. Our accommodation to the southerners, that is Dick Bennett's agreement that we would accommodate their wishes, was merely, purely an accommodation to them over a worry that we were not as concerned about it.

The **Chairman**. I can't help but note we still have a very high level of sales targets compared to the actual amount being sold. In 1982 the actual harvest level is less than 60 percent of what was projected when the President's budget was submitted to us. In January, before they revised it, the harvest level was projected to be 10.5 billion board feet.

That was revised later in April to 8.5 billion board feet. My understanding is that it is currently being estimated at 6 billion board feet. The sales offerings for 1983 is now targeted at 12.3 billion board feet and yet the 1983 harvest estimate by the administration is still only 10.6.

That assumes some substantial economic recovery and I guess all of us have to be a little concerned about large sales volumes moving on the market far above harvest levels, when they are then spread over 5 or 6 years, but with the operator getting the total discretion as to when they will harvest within that period, the total discretion limited, of course, by their financial ability and their mill capacity.

Mr. **Cheek**. And the practicality of reaching that timber. It has been pointed out it takes a while to get at it.

The **Chairman**. There is time particularly in those areas where there is extensive roadbuilding.

Mr. **Cheek**. Senator, I think all of us probably in this room would agree with Mr. Crowell's description of why it is done in order to prepare for the future. Were it not for the huge inventory that is hanging over us now, that is an abnormal amount of timber to have in inventory and that factor is not really taken into account.

The **Chairman**. Is there not some advantage to you to having some of that overhang removed?

Mr. **Cheek**. To us?

The **Chairman**. Yes; does not that overhang affect your operations too?

Mr. **Cheek**. Yes; it would depend on whose overhang you were talking about. If you were talking about ours, we think it would be fine. But for the same reason then we might have some trepidation about our competitors, because, as you say, that would give them within limits the opportunity to harvest a great deal more timber than they otherwise might.

Some of those things are speculative though, because of the prices that were bid for some of the overhang that has been discussed here.

The **Chairman**. Let me pay tribute to the people who preceded you at the table here and yourselves for the willingness to discuss the issue with the view of trying to find some solution. I don't think there has been any feeling on the part of anyone that, no, we are not going to talk about it, because there is no way in which we can get together. And I think that is true of Potlach as well.

You were involved in those early discussions and I appreciate your delineating the evolution of the discussion, because I think that is important. I hope yet that there is a way in which we can reach some kind of an accommodation, because it is a very real distress and I cannot sit here very quietly while that distress is affecting our friends over on the west slope.

On the other hand, I cannot sit quietly and allow them to simply transfer that distress to the inland mills. And I think they would understand that.

Mr. Mueller.

Mr. MUELLER. Mr. Chairman, I would like to make one more point pursuant to your comments about volume of your contract and future volume to be offered. We would like to make it clear and we did to the southern interest as well as the coastal interest that any discussion over cap in our way of thinking would have to be done only on those lands in region 6.

We were not willing to accept any cap where the volume offered in current sale level programs in region 1, because they are already performing 50 percent of their potential and even in these markets today we are still low in our timber supply in those regions because of it.

We don't enjoy 90 to 100 percent performance on allowable cut levels as they do in region 6. We operate on about 50 percent.

The CHAIRMAN. Senator Melcher.

Senator MELCHER. No questions.

The CHAIRMAN. Thank you, gentlemen, very much. I do appreciate the fact that it is a long ways from San Francisco or Princeton here and I appreciate the fact that various operators in Idaho have been willing to come here, not once, but several times and sit down and let us have the advantage of your knowledge and background and concern and we can try to find a way to solve the problem that afflicts all of us.

Apparently, we have not gotten to the end of that road yet. We may have to call again. I do appreciate it and I realize it is not without some burden in both time and expense for you to be here.

Thank you.

We will next hear from a panel of Mr. William Dennison, executive vice president, Western Timber Association from San Francisco; Mr. Ted. Turner, Salmon River Lumber Co., Riggins, Idaho; Mr. Jim Hurst, Owens-Hurst Lumber, Eureka, Mont.; and Mr. Conrad Ruepert, Edward Hines Co., Denver, Colo..

Mr. ROBBINS. Mr. Ruepert could not make it and I will be speaking in his place.

The CHAIRMAN. Thank you. We will hear from Mr. Dennison.

STATEMENT OF WILLIAM N. DENNISON, EXECUTIVE VICE PRESIDENT, WESTERN TIMBER ASSOCIATION, SAN FRANCISCO, CALIF.

Mr. DENNISON. Thank you, Mr. Chairman. I am Bill Dennison, executive vice president, Western Timber Association, whose members are heavily dependent upon Federal timber for their raw material supplies and process more than 80 percent of the national forest timber sold in California.

In an attempt to minimize the time that you must spend here this evening, I will try to summarize and will not follow directly the written testimony, but it will be our attempt today to summarize and also to attempt to set the hearing record on what we hope will be a clear understanding of purchaser credit, the concept that some have referred to in testimony and describe the general problem, and also suggest how those procedures may be remedied.

Because of the size of the job, Mr. Chairman, the entire panel before you is dedicated to that goal. And Mr. Mueller gave you a foundation to start from, he explained some of that and so we are going into a little more detail, if we have the time.

The CHAIRMAN. Please do. You have the time.

Mr. DENNISON. Thank you. Of the three basic concepts we have been talking about as far as timber sale contract relief, the termination, the contract term adjustment and purchaser credit, it is the latter, the purchaser credit procedures, that seem to be the least understood.

The proposed changes that we are talking about would eliminate ineffective purchaser credit and permit transfer of purchaser credit between national forests and between purchasers. To develop a better understanding of that, we developed a paper and distributed it in July of this year, entitled "Purchaser Credit—A Helpful Tool in Need of Repair." With your permission, I would like to submit that for the record along with my presentation.

The CHAIRMAN. That will be made a part of the record.

Mr. DENNISON. Basic to the discussion on purchaser credit is the fact that roads constructed for timber harvest are used by many people, recreationists, fishermen, hunters, berrypickers, and even for access to the wilderness areas. In general, roads are open to the public. Yet, it is the timber value that is used to finance the roads. Other users do not pay their fair share of the road construction cost, and Mr. Symms covered that quite well in his earlier testimony.

It is this point that is important when answering those who resist changes that will assure the purchasers of Federal timber are compensated for construction of permanent improvements on Federal lands. It is important to remember that, as noted by Mr. Crowell, that it takes 1 to 2 years to build roads by means of the sale and this can wrap up several million dollars, as you heard previously, on just a few sales.

Probably, it should be stated that prior to 1965 road construction costs were included as part of the logging cost, but were charged against the timber according to the estimates of the timber volumes to be removed. Faulty timber sale volumes prevented some purchasers at that time from recovering the value of the work expended on road construction.

And so, it was that in 1965 purchaser credit was included as one of the improvements in the 2400-5 form contract. Purchaser credit is simply defined as a bookkeeping procedure, if you will, in which purchasers of Federal timber are compensated for capital improvements that they make on Federal lands.

The sales are appraised once the roads are in place and if roads are constructed credit is made to the account. That is it in its simple form. The timber sale contract today lists the specified roads for which purchasers will receive credits for construction. The credit that is created by road construction or reconstruction is available to pay for any part of the current contract rates with a couple of minor exceptions.

Mr. Chairman, we agree at this point that it would be helpful, because of the misunderstanding regarding the purchaser credit and the use of technical terms, it would be helpful to refer to a chart that should be attached to the back of your, the last page of my testimony. If you would turn to that, it is just a bar chart.

We get tied up sometimes by what we mean by ineffective purchaser credit, deficit sales, and so on and so forth. I would like to use this chart, and there are some scattered throughout those here today behind me, and maybe it will help them follow as well.

This chart is designed to very simply explain effective and ineffective purchaser credit. If you will look then to the analysis of sale A, and it is listed for lack of a better date, we just said as of July 15, 1979 that the analysis on this particular sale would show that there is a $450 product value. That is the value of all the commodities, we will take lumber in this case.

And then to the right of that we find that the sale costs on that particular sale are $250. The sale costs include a myriad of things. It includes the manufacturing costs, logging costs, transportation costs, profit and risks, but those are the operating costs of the sale.

On the top of that bar is a $50 road cost. It is important to remember those are capital investments, the $50 portion of that. In that particular analysis then we have $150 of product value in excess of the total cost. Therefore, in that case all of the $50 would be effective purchaser credit. They, therefore, would be usable and they would be transferable between timber sales on a given forest.

Now, as we go to the analysis of sale A and we could say that that is even a different sale, but in this case let us say it was the same sale and because of deescalation now the product value has changed to a $250 product value. The sale costs are the same, $250. The capital investment costs are $50 and the road costs are still the same. But that now has become a deficit sale, because the product value will no longer cover the total cost, sale cost and road cost in that case, because the product value is $50 less than the total of the sale cost and road cost. They become ineffective. They are not usable on that sale, nor are they transferable to another sale.

We might be able to use that later to answer questions, but I thought that might be helpful in explaining the difference between these two concepts.

As effective purchaser credit then is earned, it is entered into the timber sale statement of account. This is credit that can be used to meet stumpage charges, as was said earlier. Where road costs exceed current timber values is an accumulation of excess or unusable purchaser credit. As was said before, then that purchaser credit is ineffective.

This was a heavy burden before 1975 and to help overcome this problem, section 4 of the Roads and Trails Act was amended and that authorized the Secretary of Agriculture to provide for the transfer of unamortized effective road costs earned on one timber sale to another within the same proclaimed national forest.

To help you, I am on page 2, Mr. Chairman.

I emphasize that that amendment did make it possible to transfer, to transfer the effective purchaser credit earned on one timber sale to another within the same proclaimed national forest. Now, this was limited to the same national forest because at that time counties received in lieu of tax revenues from Federal timber harvest receipts based on net receipts. The road costs were deducted.

So, therefore, it was possible for counties to lose revenues. They, in fact, would lose revenues if that was transferred to another forest outside of their county.

Fortunately, since that time, the county revenue was later given protection and that was due to section 16 of the National Forest Management Act of 1976, whereby the road costs are now part of the revenues shared with the States to provide in lieu of tax payments to the counties.

Therefore, transfer of purchaser credit between forests will not detract from county revenues. It is for that reason I found it difficult that any county is against the use of purchaser credit transfer. I don't understand. I hope that somewhere along the testimony we can bring that out a little more vividly.

The thing that it does do though that has not been discussed too much is by doing all of the transfer between forests, it does help minimize the burden that people are having now for cashflow. It makes money available that they have earned but are not able to use.

When timber sale values are not sufficient to support the costs of road construction, as was said before, it covers the cost of road construction and other requirements plus a predetermined return to the government—they get theirs—at the time of appraisal, the sale is termed deficit. If there are road construction or reconstruction requirements on deficit sales, the purchaser may receive partial or they may receive no compensation whatsoever for his work.

The timber sale statement of account is not credited for work completed nor can the ineffective purchaser credit from another sale be transferred for payment against timber on this sale. That is what we were explaining in that chart. And in this case, Mr. Chairman, the government receives a long-term capital investment free of charge.

Now, ineffective purchaser credit can also be developed after a timber sale has been awarded. It is going to occur in areas where roads already exist due to lower volumes per acre to be harvested on the second entry and high road reconstruction costs. As I said before, it can also occur after a timber sale is awarded due to a dropping market and subsequent deescalation of timber in tentative bid rates. That could been the case on the second chart, the second analysis. That could have been what happened on the same sale on a different date. It became a deficit sale after the fact, after the fact of bidding.

So, this is the problem facing many purchasers today that they have been trying to get an understanding and not too successfully. More recently we have been hit with the idea that wilderness advocates have alleged that fully compensating timber purchasers for the cost of required road construction of national forest roads would cause road construction in undeveloped areas where presumably roads would not otherwise be built. This is contrary to what we heard in the previous panel, as you so vividly pointed out.

Now, if the environmentalist argument is correct, they must assume two or three things. First of all, and if in fact, these roads can be built where they would not otherwise be built, they must assume, first of all, that permanent roads could and would be built without seeking to achieve in an economically sound and environmentally appropriate manner the management goals and objectives in the national forest system. That is apparently what they are saying would happen.

Also they must apparently assume that all national forest lands, even those not considered suitable for commercial timber production will be roaded.

And, last, unfortunately, they apparently assume that timber purchasers should not expect full compensation for the required construction of roads designed by the Forest Service to serve for at least 20 years the planned use, the administration and protection of all the various resources on the national forests.

I submit to you, Mr. Chairman, assumptions that are being made are without foundation and are contrary to fact. If timber purchasers were to be fully paid for the road building they must do under Forest Service direction, the public interest would be protected.

Federal laws and regulations require the Forest Service to develop and plan to achieve said goals and objectives with public participation and use of a systematic interdisciplinary approach.

Time will not permit a review of all of the laws and regulations that guard against the concerns that have been raised by the environmentalists, but they are listed in the written paper that we have before you. Let me give you a couple of examples, if I may, to emphasize what I am trying to demonstrate.

First of all, the National Forest Roads and Trails System Act sets many standards for road construction. A more important act probably is the Forest and Rangeland Renewable Resources Planning Act and as amended it outlines many constraints.

A couple that I would like to point out to you on the bottom of page 4, one of them, the second paragraph from the bottom, Mr. Chairman, to assure that roads will not be built unnecessarily, and I quote:

> In developing land management plans, the Secretary shall identify lands within the management area which are not suited for timber production, considering physical, economic and other pertinent factors to the extent feasible and shall assure that, except for salvage sales or sales necessitated to protect other multiple-use values, no timber harvesting shall occur on such lands for a period of ten years.

That then rebuts one of the assumptions, allegations being made by the wilderness advocates.

Another one to assure cost effectiveness, the last paragraph, the act declares that:

> The Secretary shall formulate and implement as soon as practicable, a process for estimating long-term costs and benefits to support the program evaluation requirements of this Act. This process shall include requirements to provide information on estimated expenditures associated with the reforestation, timber stand improvement and sale of timber from the National Forest System and shall provide for a compari-

son of these expenditures to the return to the government resulting from the sale of timber.

So let me conclude, Mr. Chairman, by saying that these detailed requirements in the law are supplemented in much greater detail of planning regulations that are included in 36 CFR part 219. They will control the planning and use of the national forest and they too were developed with public participation including detailed comments by those now suggesting that the national forests would be misused if purchasers were compensated for the required roads they construct that provide permanent facilities for administration, protection, and planned use by fishermen, hunters, timber operators, and environmentalists, as I pointed out before.

Mr. Chairman, I hope that this statement is helpful in pointing out some of the problems that we see and explaining what we mean by purchaser credit changes. Others on the panel, I am certain, are prepared to offer specific examples of the problems and the need for proposed changes.

I would be very pleased to respond to any questions you might have now or later.

[The prepared statement and paper submitted by Mr. Dennison follows:]

Statement to the Subcommittee on Public Lands and Reserved Water of the Senate Committee on Energy and Natural Resources on S.2805, Washington, D. C. August 16, 1982.

Mr. Chairman:

I am William N. Dennison, Exectuive Vice President, Western Timber Association whose members are significantly dependent upon federal timber for their raw material supplies. Western Timber Association members process more than 80% of the National Forest timber sold in California.

For the past 8 to 10 months many of us have been attempting to develop reasoned legislation to minimize the potential economic disaster facing communities, counties and thousands of families that are dependent upon the timber industry. We have sought to achieve this by minimizing costs to the federal government.

During this past year, county officials, businessmen and families have been watching and waiting for results. The uncertainties have been a strain on everyone and are beginning to cause unnecessary inefficiencies in business operations. Many operators are delaying harvest plans, awaiting decisions on the issues under discussion today. Congressional action is needed now.

Purchaser Credit Proposal Is Misunderstood

Of the three basic concepts proposed for timber sale contract relief by industry leaders and others, modification of Purchaser Credit procedures seems to be the least understood. The proposed changes would eliminate ineffective purchaser credit and permit transfer of purchaser credit between National Forests and purchasers. To develop better understanding, we distributed a discussion paper in July 1982 entitled Purchaser Credit - A Helpful Tool In Need Of Repair. We offer that paper today, along with copies of our presentation, to be included in the hearing record.

I will review briefly the history of Purchaser Credit development, changes made in the 1970's and the reasons additional modification in Purchaser Credit procedures are now needed.

Purchaser Credit History

As early as 1961 industry representatives were seeking major changes that would help assure that they would receive just compensation for roads constructed for timber harvest and consequently are available for all other users of the national forests. At that time, there was no "purchaser credit", and the estimated cost of road construction was a part of the logging costs used to appraise the value of timber. Such costs differed from most logging costs however, in that they were a fixed total prorated to each 1,000 board feet according to estimates of the volume to be removed. Other logging costs, such as hauling, varied directly with volume actually removed. The difficulty in this contractual procedure became apparent as road construction projects became more expensive. Faulty timber sale volume estimates prevented some purchasers from recovering the value of the work expended on the capital improvements.

In 1965, "Purchaser Credit" was included as one of the improvements in the 2400-5 form contract. The timber sale contract today lists the Specified Roads for which purchasers will receive credits for construction. The estimated costs of construction phases (clearing, excavation, etc.) are also listed along with the total amount of Purchaser Credit permitted (Purchaser Credit Limit) under the individual contract. The credit created by road construction or reconstruction is available to pay for any part of the Current Contract Rates, except for Base Rates, Required Deposits (for slash) or any cooperative deposits (erosion control, etc.).

Computation of Purchaser Credit is made monthly based on the Forest Service estimate of the percentage of work completed. As Effective Purchaser Credit is earned, it is entered into the Timber Sale Statement of Account. Effective Purchaser Credit is unused Purchaser Credit which does not exceed Current Contract Value minus Base Rate Value; i.e., credit that can be used to meet stumpage charges. Where timber values are low and road costs high, there is an accumulation of excess, unuseable, purchaser credit.

To help overcome this problem, Congressman H. T. "Bizz" Johnson provided leadership in the 1975 amendment (P.L.94-154) of Section 4 of the Act of October 13, 1964 (Roads and Trails Act). The amendment authorized the Secretary of Agriculture to provide for the transfer of unamortized road costs, earned on one timber sale to another within the same proclaimed National Forest. This was limited to the same forest because at that time counties received in-lieu-of-tax revenues from federal timber harvest receipts based on net receipts (i.e. after road construction costs were deducted). County revenues could be reduced if purchaser credits were transferred to another forest, outside of their county.

Full Protection For County Revenue

County revenue was later given protection which removed the transfer of credits problem. Section 16 of the National Forest Management Act of 1976 amends 16 U.S.C.500 to include "...as moneys received..." the cost of National Forest Transportation System roads constructed under timber sale contracts. The road costs are now part of the revenues shared with the States to provide in-lieu-of-tax payments to the counties.

Deficit Sales Pose Problems

When timber sale values are not sufficient to support the costs of road construction and other requirements, plus a predetermined return to the government, at the time of appraisal, the sale is termed deficit. If there are road construction or reconstruction requirements on deficit sales, the purchaser may receive partial or no compensation for his work. The Timber Sale Statement of Account is not effectively credited for work completed nor can the ineffective Purchaser Credit from another sale be transferred for payment against timber on this sale. The government receives a capital improvement free of charge.

Ineffective purchaser credit can develop after a timber sale has been awarded due to dropping markets and subsequent de-escalation in Tentative Bid Rates. Ineffective purchaser credit can occur just as readily in areas where roads already exist due to lower volumes per acre to be harvested on the second entry and high road reconstruction costs.

This problem is facing many purchasers today. We submit that modification in Purchaser Credit procedures was appropriate even before now, however the economic burdens and especially cash flow problems facing businesses make it more urgent.

Environmentalists Concerns Are Covered By Law

Wilderness advocates have recently alleged that fully compensating timber purchasers for the cost of required construction of National Forest System roads would cause road construction in undeveloped areas "with marginal timber," where presumably roads would not otherwise be built.

This argument apparently assumes:

(a) Permanent roads could and would be built without seeking to achieve, in an economically-sound and environmentally-appropriate manner, the management goals and objectives for the National Forest System and the individual national forests.

(b) All national forest lands that may be made accessible by roads are considered suitable for commercial timber production.

(c) Timber purchasers should not expect full compensation for the required construction of roads designed by the Forest Service to serve for at least 20 years the planned use, administration and protection of all the various resources on the national forests.

Such assumptions are without foundation and are contrary to fact. If timber purchasers were to be fully paid for the road building they must do under Forest Service direction, the public interest would be protected. Federal laws and regulations require the Forest Service to develop and plan to achieve said goals and objectives with public participation and use of a systematic interdisciplinary approach. Consider the following constraints in law:

National Forest Roads And Trails System Act

* The Act of October 13,1964 declares: "The Secretary is authorized to provide for the acquisition, construction, and maintenance of forest development roads...in location and according to specifications which will permit maximum economy in harvesting timber...tributary to such roads and at the same time meet the requirements for protection, development, and management thereof, and for utilization of the other resources thereof." (16 U. S. C. 535)

Forest and Rangeland Renewable Resources Planning Act

* The Act of August 17, 1974,as amended, states: "The Congress declares that the installation of a proper system of transportation to service the National Forest System...shall be carried forward in time to meet anticipated needs on an economically and environmentally sound basis..."

"Roads constructed on National Forest System lands shall be designed to standards appropriate for the intended uses, considering safety, cost of transportation, and impacts on land and resources." (16 U. S. C. 1608)

"In order to provide for periodic review of programs for management and administration of the National Forest System...the Secretary of Agriculture...shall prepare and transmit to the President a recommended Renewable Resource Program (hereinafter called the 'Program'). The Program...shall provide in appropriate detail for protection, management, and development of the National Forest System, including forest development roads and trails... The Program shall be developed in accordance with principles set forth in the Multiple-Use Sustained-Yield Act of June 12, 1960 (74 Stat. 215; 16 U.S.C.528-531), and the National Environmental Policy Act of 1969 (83 Stat. 852; 42 U. S..C. 4321-4347)." (16 U.S.C. 1602)

* "As part of the Program...The Secretary of Agriculture shall develop, maintain, and, as appropriate, revise land and resource management units of the National Forest System...

use a systematic interdisciplinary approach to achieve integrated consideration of physical, biological, economic, and other sciences...

provide for public participation in the development, review and revision of land management plans...

assure that such plans...provide for multiple use and sustained yield of the products and services obtained therefrom in accordance with the Multiple-Use Sustained-Yield Act of 1960, and, in particular, include coordination of outdoor recreation, range, timber, watershed, wildlife and fish, and wilderness...

promulgate regulations, under the principles of the Multiple-Use Sustained-Yield Act of 1960, that set out the process for the development and revision of the land management plans...

"Resource plans and permits, contracts, and other instruments for the use and occupancy of National Forest System lands shall be consistent with the land management plans...

"In developing land management plans...the Secretary shall identify lands within the management area which are not suited for timber production, considering physical, economic, and other pertinent factors to the extent feasible...and shall assure that, except for salvage sales or sales necessitated to protect other multiple-use values, no timber harvesting shall occur on such lands for a period of 10 years...

"The Secretary shall...formulate and implement as soon as practicable, a process for estimating long-term costs and benefits to support the program evaluation requirements of this Act. This process shall include requirements to provide information on...estimated expenditures associated with the reforestation, timber stand improvement, and sale of timber from the National Forest System, and shall provide for a comparison of these expenditures to the return to the Government resulting from the sale of timber..."(16 U.S.C.1604)

> * "'Multiple use' means the management of all the various renewable surface resources of the national forests so that they are utilized in the combination that will best meet the needs of the American people; making the most judicious use of the land for some or all of these resources or related services...without impairment of the productivity of the land, with consideration being given to the relative values of the various resources...
>
> "'Sustained yield of the several products and services' means the achievement and maintenance in perpetuity of a high-level annual or regular periodic output of the various renewable resources of the national forests without impairment of the productivity of the land." (16 U.S.C.531)
>
> * "[I]t is the continuing policy of the Federal Government...to use all practicable means and measures...in a manner calculated to foster and promote the general welfare, to create and promote conditions under which man and nature can exist in productive harmony, and fulfill the social, economic, and other requirements of present and future generations of Americans." (42 U. S. C. 4331)

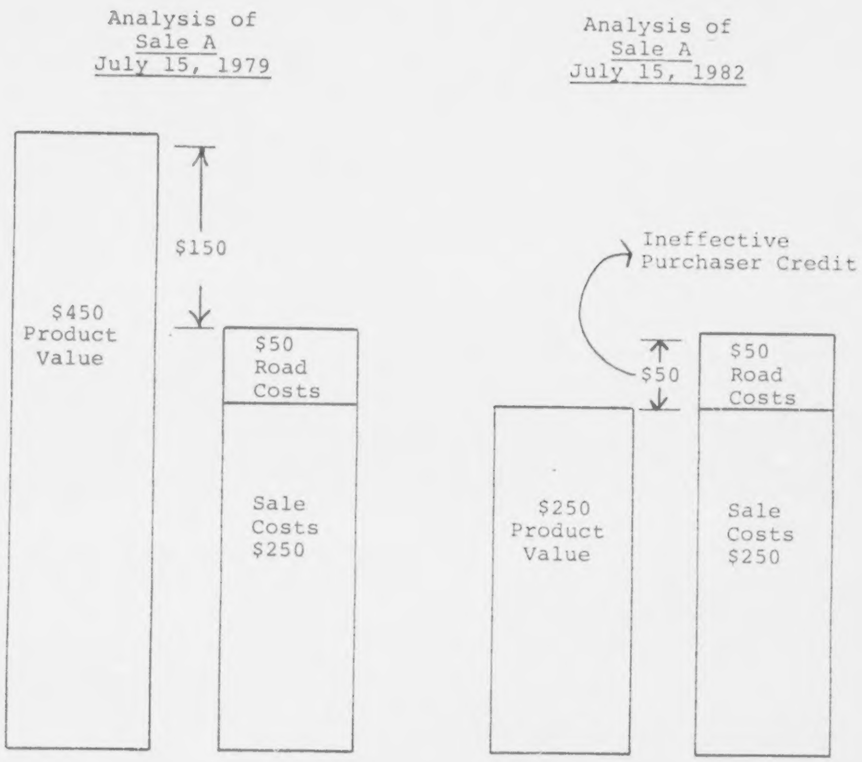
These detailed requirements in the law are supplemented in much greater detail by approximately 16,000 words of planning regulations included in 36 CFR Part 219. They will control the planning and use of the national forests, and they too were developed with public participation--including detailed comments by those now suggesting the national forests would be misused if timber purchasers were compensated for the required roads they construct.

We hope the Congress will judge these allegations on their merits and treat timber purchasers with equity by removing the need for them to subsidize the transportation system needed for the management of the national forests.

I will be pleased to respond to any questions that you may wish to ask.

* * *

FIGURE I: Example of Effective and Ineffective Purchaser Credit


$450
Product
Value
$150
$50
Road
Costs
Sale
Costs
$250
Ineffective
Purchaser Credit
$50
$250
Product
Value
$50
Road
Costs
Sale
Costs
$250

Analysis of
Sale A
July 15, 1979

Product Value is $150 in excess of total costs. Therefore all $50 of the road costs are effective Purchaser Credit.

Analysis of
Sale A
July 15, 1982

Product Value is $50 less than the total of sale costs and road costs. Therefore the $50 road costs are ineffective Purchaser Credit.

DEFINITIONS

Product Value is the value of the manufactured lumber in the mill yard.

Road Costs are the construction costs required to build the specified roads that access the timber sale.

Sale Costs include manufacturing costs, logging costs, transportation costs, and profit and risk.

PURCHASER CREDIT - A HELPFUL TOOL IN NEED OF REPAIR

by

William N. Dennison
Executive Vice President
Western Timber Association

Recent discussions of proposals to relieve obligations under inoperable timber sale contracts, particularly a recent report from the Library of Congress, have raised questions about the use of Purchaser Credit earned for road construction and its importance to both the government and the purchasers of Forest Service timber.

This paper will review why Purchaser Credit was initiated in Forest Service timber sale contracts, attempts to modify its use and the need for changes now to aid counties, communities, employment and timber purchasers.

In The Beginning--There Was No Purchaser Credit

By the mid 1960's road construction costs were a growing burden for timber purchasers. As early as 1961, however, industry representatives were seeking major changes in timber sale contracts, including the handling of road costs. They emphasized the need to develop an equitable system under which purchasers could be compensated for constructing permanent roads needed for the administration, protection and use of the national forests.

There was no "purchaser credit" for road construction. Estimated cost of road construction was a part of logging costs used to appraise the value of the timber. Such costs differed from most logging costs however, in that they were a fixed total prorated to each 1,000 board feet according to estimates of the volume to be removed. Other logging costs, such as hauling, varied directly with volume actually removed. The problems confronting purchasers were compounded by the fact that road costs were assigned to each species, at the same rate, regardless of product value.

The difficulty in this contractual procedure became apparent as road construction projects increased in work and costs. Faulty timber sale volume estimates prevented some purchasers from recovering the value of the work expended on the capital improvements.

An early example of the problem was the results of a 1955 purchase by Wetsel-Oviatt Lumber Company of a Forest Service advertised 12.8 million board foot timber sale on the Eldorado National Forest. The California based company constructed the required timber sale roads and logged the timber, which scaled only 6.5 million board feet. The result was that the company would lose half the development costs or $21,299.

The Forest Service was requested to mark additional timber to make the purchaser whole. They refused on the basis that there was no more "poor risk" timber in the area. Forest Service then opposed a claim that was sent to the Comptroller General. The claim was subsequently rejected twice.

A private bill, H. R. 7132, was prepared and introduced by California Congressman Harold T. "Bizz" Johnson. During a subcommittee meeting on Claims of the House Committee on the Judiciary, the Congressman told members that Federal government was under a moral obligation to compensate Wetsel-Oviatt Lumber Company for "...losses suffered as the result of a gross error by government officials."

Members of the subcommittee unanimously approved H. R. 7132 after a full review. A favorable report was printed and the bill was passed by both Houses. However, President Lyndon B. Johnson vetoed the bill, apparently on the advice of the Forest Service. The veto message contained some of the same language found in the Forest Service earlier arguments: "To grant relief in this case would be unfair to other contractors who have encountered under-runs in the performance of similar contracts." They acknowledged widespread inequities, however, Wetsel-Oviatt Lumber Company received no compensation for the $21,299 of road construction and the inequities continued.

Minor Modifications Recognized Potential Problems

Sometime after Wetsel-Oviatt Lumber Company purchased the sale noted above, Forest Service began also to recognize potential problems and modified their procedures. They first established guidelines in which the road costs could be written off on the first 80 percent of timber volume and road charges were made against the higher-valued species. Under such a procedure, Forest Service was covered even if timber sale volumes over-ran. Purchaser's losses were insured however, only down to 20 percent under-cut on a timber sale. Many sales in California have been off by that percentage and more. Of course, this procedure would not have solved the Wetsel-Oviatt Lumber Company problem even if it had been included in their contract, since their underrun had been 50 percent.

A problem that has been with us for years is the fact that compensation for road construction work is not always possible on low value timber sales since there must be a charge in cash for a base rate on all timber. The Forest Service attempted to solve that difficulty by permitting the accumulation of road amortization rate deficits and credits during declining markets, when stumpage rates were adjusted downward with the market and there was not enough value to meet road costs. However, the market had to rise before termination of the sale if any of the deficiencies were to be offset by delaying upward escalation of stumpage rates. The attempted patchwork of a poor system did not materially help either industry or the agency at that time.

Time For Change - New Contract Form

As a result of such inequities, industry representatives developed a Four-Point Program proposal in 1961 that was designed to: 1) Assure that Forest Service would sell the Allowable Cut; 2) improve timber appraisals; 3) rewrite the timber sale contract, and 4) develop an equitable appeals procedure. As a part of those discussions, industry proposed that the timber be appraised as if the Specified (permanent) roads were in place. Then, as the purchaser constructed the roads, credit would be given as payment for timber.

In 1965, a new timber sale contract form was implemented after many hours of negotiations between Forest Service and industry representatives and a great deal of individual work on both sides.

One of the many improvements found in the 2400-5 form contract was the establishment of "Purchaser Credit" for construction and reconstruction of Specified Roads. This credit could be used in payment for timber.

The new procedure eliminated the "Road Amortization Rate Deficits" and the need to prorate road costs to individual species for record keeping of road amortization.

The Purchaser Credit concept is still in use today. Tables 9 and

10 in the A Division portion of the contract provide the basis for Purchaser Credit. Table 9 lists the Specified Roads for which purchasers will receive credits for construction. The estimated costs of construction phases (clearing, excavation, culvert installation, etc.) are listed in Table 10, which also shows the total amount of Purchaser Credit permitted (Purchaser Credit Limit) under the individual contract.

The credit created by road construction is available to pay for any part of the Current Contract Rates, except for Base Rates, Required Deposits (for slash disposal) or any cooperative deposits (erosion control, etc.). Industry has objected to this limitation on the use of Purchaser Credit in the past. Their main argument was that money had been expended to provide capital improvements for the government and use by the public. The money spent, if not recouped quickly, is a subsidy to the government by private funds. They argued further that Purchaser Credit should be considered the same as cash. The new contract (2400-6) partially recognizes this need under B4.222-Purchaser Credit As Deposits- "Effective Purchaser Credit shall be considered equivalent to cash for advance deposits notwithstanding the B4.2 prohibition on using Purchaser Credit for Base Rate charges." However, this refers only to advance deposits for stumpage payments.

Computation of Purchaser Credit

Computation of Purchaser Credit is made monthly based on Table 10 and Forest Service estimates of the percentage of road construction work completed. Five percent of the cost estimate for completed work is withheld until the work is completed or is abandoned under other contract provisions (B5.253 or B8.33).

As Effective Purchaser Credit is earned it is entered in the Timber Sale Statement of Account. Effective Purchaser Credit means unused Purchaser Credit which does not exceed Current Contract Value minus Base Rate Value, i.e. credit that can be used to meet stumpage charges.

Problems Still Exist

The new contract forms 2400-5 and 2400-6 did reduce some of the purchaser's problems relating to road construction on Forest Service timber sales. Still existing however, were the situations whereby timber purchasers would not receive full compensation for construction of government system roads under the timber sale. This occurred often where timber values were low and road costs high. In those situations, there was an accumulation of excess Purchaser Credit.

Transfer Of Purchaser Credit

To overcome the problem of unuseable (excess) Purchaser Credit, Congressman H. T. "Bizz" Johnson provided leadership in the 1975 amendment (P. L. 94-154) of Section 4 of the Act of October 13, 1964 (Roads and Trails Act). The amendment added the following sentence to that Act:

> "The Secretary is authorized, under such rules and regulations as he shall prescribe, to provide for the transfer of unamortized road costs, earned after the date of enactment of this provision from one timber sale to another within the same proclaimed National Forest."

The provision helped partially serve the purpose for which it was intended; to reduce the amount of cash timber purchasers have tied up in road construction.

The rules and regulations prescribed on transfer of Purchaser Credit thus far are found in 36 CFR §223.3(m):

> "The amount of purchaser credit which may be transferred into a given sale shall be limited to the difference between current contract value and the total of:
>
> (i) remaining base rate value needs,
>
> (ii) Salvage Sale fund needs plus sale area improvement needs in excess of base rate value needs, and
>
> (iii) total purchaser credit limit on the given sale."

These restrictions could result in a zero limit on some sales, in which case Purchaser Credit could not be used until it is earned on that particular sale. There are reasons to seek changes in the dollar limit for transfer-in of Purchaser Credit described in this section and the current contract provision C4.211#-Transfer of Purchaser Credit (8/76).

County Revenue Protected

The last six words of the 1975 amendment (P. L. 94-154; "...within the same proclaimed National Forest.") were provided to assure that transfer of credits would not affect county incomes, since such incomes were tied directly to the cash payment for timber in the related national forest. This restricted transfer of credit between sales on different forests and did not provide full use of private money expended on government road construction.

County revenue was later given protection in Section 16 of the National Forest Management Act of 1976 by amending 16 U. S. C. 500 to include as "moneys received" the cost of National Forest Transportation System roads constructed under timber sale contracts. The road costs are now part of the revenues shared with the States to provide in-lieu-of-tax payments to the counties.

In April 1978, George Craig, Executive Vice President, Western Timber Association, wrote to Congressman H. T. "Bizz" Johnson and Senator McClure requesting that the six word phrase be stricken from the law so that cash-flow problems could be reduced for timber purchasers. He noted that this was "...an important consideration in this capital-intensive industry where credits for costly roads may not be used as payment for timber for more than a year after the investment is made." Mr. Craig further noted that, "Any further improvement in reducing capital requirements will help the economy of timber-dependent communities of the West." That opportunity still exists today.

Ineffective Purchaser Credit - Free Lunch For Government

The 1975 amendment (P. L. 94-154) to Section 4 of P. L. 88-657 specifically noted that the transfer would be for "unused effective purchaser credit for road construction...".

"Effective Purchaser Credit" once again, is the unused Purchaser Credit which does not exceed Current Contract Value minus Base Rate Value. "Base Rate Value" is the sum of the products of Base Rates and estimated remaining unscaled volumes by species of Included Timber meeting Utilization Standards.

When timber sale values are not sufficient to support the costs, plus a predetermined return to the government, at the time of appraisal, the sale is termed deficit. More explicitly, the term means the estimated value of the product to be cut from the timber is less than the sum of all costs for an operator of average efficiency and total charges at Base Rates and a normal return for profit, risk,and interest on borrowed capital and income taxes.

If there are road construction or reconstruction requirements on deficit sales, the purchaser may receive partial or no compensation for his work. The Timber Sale Statement of Account is not effectively credited for work completed, nor can the ineffective Purchaser Credit be transferred to another sale. The government received an asset free of charge.

Ineffective Purchaser Credit can develop after a timber sale has been awarded, due to dropping markets and subsequent de-escalation in Tentative Bid Rates. Many purchasers are facing that problem under the current recession.

Ineffective Purchaser Credit Is Inflationary

Since purchasers are not compensated for the value of road construction work by which the sale is deficit, it is not uncommon for them to overbid the timber sale up to that amount. The contract is awarded to the apparent high bidder. By doing so, the sale costs no more than without the overbid (the road would be constructed free of charge to the government at purchaser's expense in any event) and the Purchaser Credit then becomes effective, and transferable to another timber sale.

Thus, it could be said that the maintenance of the ineffective Purchaser Credit concept is inflationary since it causes companies to overbid sales just to help their cash flow position.

The important point to remember is that ineffective Purchaser Credit is a private subsidy to government. Although proposed legislative changes may require the government to compensate purchasers for this ineffective Purchaser Credit, it is by no means a "guaranteed subsidy" by the government as suggested by Mr. Robert Wolf in his report to Congressman Marlenee. .Rather, it would be a just compensation for services rendered by timber purchasers for construction of roads designed for a 20 year life.

Further, the need for the elimination of ineffective Purchaser Credit and transfer of Purchaser Credit between forests is pertinent to the economic conditions which the timber industry now faces. Any improvement in cash flow potential may spell the difference between continued business and bankruptcy.

The **Chairman**. Thank you very much.

Next, we will hear from Mr. Turner.

STATEMENT OF TED TURNER, REPRESENTING SALMON RIVER LUMBER CO., RIGGINS, IDAHO; EVERGREEN FOREST PRODUCTS, TAMARAC, IDAHO; JENIFER STATE LUMBER CO., JUILIAETTA, IDAHO; AND BLY LAKE FOREST INDUSTRIES, BLY, OREG.

Mr. **Turner**. Mr. Chairman, it is good to be here. My name is Ted Turner. I represent Salmon River Lumber Co. in Riggins, Idaho; Evergreen Forest Products in Tamarac, Idaho; Jenifer State Lumber Co. in Juiliaetta, Idaho; Bly Lake Forest Industries in Bly, Oreg.

Mr. Hitchcock sends his regards and would have been here only details in Idaho made him stay home.

I won't bore you with a bunch of details about ineffective road credits, Mr. Chairman. I know that you are very, very aware of this acute problem for the inland region. As you know, some months ago some of us in Idaho who are particularly concerned about the deficit sale problem and the ineffective road credit problem and very, very deeply concerned about the tremendous reduction of stumpage crisis that were occurring on the west coast called a series of meetings to enlist support for what we call a two point program of relief for the timber industry.

The first point would provide for some termination and contract term adjustment of timber sales in the west where that would, in fact, be effected. The second point was to call for legislation that would require the Federal Government to pay those of us in the inland for the roads that we were building as they do on the west coast.

Mr. Chairman, termination would do nothing for those many of us in Idaho in the inland region. What good does it do to terminate a deficit sale and try to resell that deficit sale, which will be as deficit or possibly more deficit than it was when it was originally purchased?

Mr. Chairman, we did enlist a substantial amount of help for our two point program. We had some 16 companies in Idaho and companies from other parts of the inland region that supported this program, but we did not do this without some considerable concern from other of our friends in the industry in Idaho in the inland region.

Mr. Chairman, I am sure you can understand that myself and Mr. Hitchcock are concerned to learn that neither piece of legislation that has been presented in the U.S. Senate deals with this subject of ineffective road credits. I would answer any questions you have, Mr. Chairman, now or later.

Thank you.

The **CHAIRMAN**. Thank you very much. We will next hear from Mr. Hurst.

Senator **MELCHER**. Mr. Chairman, Mr. Hurst is from Eureka, Mont. Welcome, Mr. Hurst.

STATEMENT OF JIM HURST, JR., CO-OWNER, OWENS-HURST LUMBER CO., EUREKA, MONT.

Mr. **HURST**. My name is Jim Hurst, Jr. I am a co-owner of Owens-Hurst Lumber Co. of Eureka, Mont. Our company is currently involved in an unusual situation which vividly displays some of the dilemmas and ironies currently facing the Nation's forest products industry and which have been the focus of discussion at these hearings.

Most of the smaller mills in northwest Montana, where I operate, have been limping along on a one-shift basis. While U.S. Forest Service timber is the main supply in our area, very little Forest Service timber is being logged. Until recently our mill also was operating on a single shift basis.

We have processed primarily U.S. Forest Service timber and as a result of this and a drop in the lumber market we lost a considerable amount of money in 1981. We cannot withstand such losses in 1982 as bankruptcy will be the only alternative. Our existing forest service sales were purchased during a higher market period. To log them today would be disastrous.

We have streamlined our operation as much as possible. There is no fat left to cut and the lumber market is not getting stronger. Therefore, our only hope for survival, as I see it, is to purchase reasonably priced timber, thereby lowering our raw material cost.

We cannot look to the U.S. Forest Service timber sale program for help because the next sale to be offered in our area is so badly deficit that we will not be able to bid on it. This sale is now advertised with a $400,000 road construction requirement. This road is entirely deficit.

The purchaser credit earned by constructing this road will be entirely ineffective. In other words, for the privilege of operating this sale, we are being asked to donate a $400,000 road asset to the Federal Government. This sale is unfortunately no longer the exception with the rule in Forest Service offerings in Montana.

With this background in mind, let me describe the current development. On July 5, 1982, the Province of British Columbia put a vast amount of bug-infested and high risk timber, similar to the bug-infested timber in our own country up for sale. Since the timber was dead and dying and no Canadian mills wanted it, the Canadians waived their export restrictions on logs, because they wanted the timber to be salvaged as soon as possible.

Owens-Hurst has purchased nearly all of the salvagable timber that was made available. It is a unique situation because the stumpage is reasonable and the road costs are realistic, which will allow our mill an opportunity to run two shifts instead of one, thereby increasing our work force from 38 to 70.

We have more than enough Canadian timber for our small mill. However, there are at least three other mills in our area who have been operating on a single shift basis and who have expressed interest in procuring enough of the Canadian logs to add second shifts at their plants. That is a situation that means 100 to 170 direct woods products jobs that would not be available without the Canadian timber.

To summarize, I think it is a shame that we in northwest Montana have to look to another country's raw material for our survival, when we have plenty of dead and dying timber in our own backyard that has not yet been put up for sale. If the Forest Service would make this timber available on a cash program and if most of the sales were not so horribly deficit, because of exorbitant road costs, then I think the woods products industry in our area would have a good chance of survival without Canadian wood.

Thank you for this opportunity to testify.

The CHAIRMAN. Thank you very much.

Mr. Wayne Knaugh, P&M Lumber Corp., Stockton, Calif.

STATEMENT OF WAYNE KNAUGH, VICE PRESIDENT OF RESOURCES, P&M LUMBER PRODUCTS, STOCKTON, CALIF.

Mr. KNAUGH. Thank you, Mr. Chairman. My name is Wayne Knaugh. I am vice president of resources, P&M Lumber Products, Stockton, Calif. We have four sawmills, two log yards and we operate predominantly in Oregon and California.

Purchaser credit has become a widely disputed issue, not only amongst the environmentalists, but as can be seen here even us and the industry. It is essential to understand the purchaser credit concept as Mr. Dennison has outlined. The issue is most important to many purchasers of national forest timber and it requires an equitable remedy that all can use.

There was an example given by the representative from Potlach who said that the deficit would be more effective with purchaser credit and I don't believe this is true. With the proposal of transferable purchaser credit, the purchaser with the deficit sale could either transfer it to a sale that had markets for its use or assign it to another timber purchaser.

Roads are a permanent investment. They last from 20 to 50 years. We construct them to very high standards. They are used for a long time, both administratively and for management. All national forest users use these roads. I have an experience on a timber sale on a national forest whereby actual measurements that the Forest Service took, there was one car every 4 minutes from a recreationist going across this road during our phase of construction. And that same heavy load is occurring today.

The purchaser credit concept is unique in that the purchaser is subsidizing the U.S. Government and, again, this leads to deficit sales. Industry is sensitive to the environmental needs and its requirements of road building. Again, Mr. Dennison cited examples.

Changes in purchaser credit as proposed do not have anything to do with whether a road will be built on the best possible site, but the question is who should pay for those permanent facilities. Many factors influence whether purchaser credit is effective or ineffective. Again, the bar graph on the attachment of Bill Dennison's presentation shows the escalation, period of time, timber quality have a great deal to do with it.

We must recognize the dominant position of the U.S. Forest Service holds in the timber supply throughout the United States, especially in the Western States. A phrase that we have heard used is that the U.S. Forest Service is like the old country store, it is the only operation in town that you have to purchase. And in this instance we see that the country store is issuing script and then they are calling it back on a discount and saying it is no longer as good as cash.

The framers of the contract when purchaser credit was first envisioned was that purchaser credit is as good as cash. The industry would like to propose three essential items in the purchaser credit concept; that all purchaser credit be effective. We get paid for what we do.

That we be able to transfer between national forests; and that we be able to assign purchaser credit between timber sale purchases.

Thank you very much, Mr. Chairman. If you have any questions I would be happy to answer them.

The CHAIRMAN. Thank you very much.

Mr. Robbins, you may make a statement.

STATEMENT OF SCOTT ROBBINS, REPRESENTATING BLACK MOUNTAIN SPRUCE, CRAIG, COLO.

Mr. ROBBINS. Thank you, Mr. Chairman. My name is Scott Robbins. I represent Black Mountain Spruce. We operate a small sawmill in Craig, Colo., which employs approximately 50 people. Over 95 percent of our logs, an overwhelming percentage, come from the national forest.

The termination of timber sales proposed in the bill will not help our plight, because of low stumpage rates on existing sales. If we terminate any of our sales, they would simply be reoffered at close to the current contract price. In our operation, there is little room for a downward shift in the cost of stumpage.

We do believe, and the purpose of this panel, is purchaser credit. We do believe that purchasers should properly be reimbursed for work done for the Forest Service under the requirements of the timber sale contract. One of these requirements is the construction of specified roads. In our area permanent roads are constructed to access an area for numerous uses.

These roads are designed for recreation, hunting and management purposes, for example, as well as timber harvesting. Although these roads are designed and used for a number of purposes, they are constructed by timber purchasers. In deficit sales the cost of these roads is borne entirely by the timber purchaser.

In our area, it is normal for it to take up to 15 years to harvest the timber adjacent to any particular road, as the timber is harvested in a three-stage shelter wood system involving three separate timber sales. Yet, the cost of the road is carried entirely by the purchaser in the first sale in the area. In a depressed lumber market this causes road credit to be ineffective for the timber purchaser.

The proposal to eliminate ineffective purchaser credit and permit transfer of purchaser credit between national forest and purchasers would aid the purchaser in recovering the investment of building multiple-use roads for the Forest Service. Termination of sales or price rollbacks will not resolve our problem, as there is no room to reduce stumpage in our area.

We must establish some method to credit timber purchasers for the long-term cost of building roads and deficit sales.

Thank you.

The CHAIRMAN. Thank you very much.

Senator Melcher.

Senator MELCHER. Mr. Chairman, I would like to point out to these witnesses that Chairman McClure has for years taken the lead in both the House and the Senate to make some sense out of Forest Service road requirements and cut down the cost of road construction.

I don't know why it always takes so long, but Forest Service reexamination of its road requirements policies has been going on for 10 years. Because of that we see very little progress made in region I to reach a finding that, indeed, cutting down the requirements of these roads is advantageous for the long-term goals of the national forests.

First of all, it makes sense for timber harvest and, second, for wildlife and recreational uses it is often better with a road of lesser standards. I think these gentlemen presented outstanding testimony. I think unless you do have some transferability of purchaser road credits, we don't have much established. It has to become a part to include in a Senate bill to correct the situation that a lot of us are calling a dilemma.

I think it is outrageous that we are not doing what Mr. Hurst has recommended. It seems odd to me that we have to watch dying timber further deteriorate.

I commend you Mr. Hurst, specifically for making that point so vividly and explaning how the Canadians are taking care of the problem. It is exactly the same bugkill timber situation we have in Montana.

I am glad I am here for this because we need to have a bill that does some good for everybody.

Thank you, Mr. Chairman.

The **Chairman**. Thank you, Senator Melcher. I appreciate your comments and I also appreciate, of course, your comment with respect to my efforts on roadbuilding within the national forests.

I might just point out to some of our friends who are concerned about whether the timber companies get an undue benefit out of building these roads, I suspect everyone of them would just assume that those roads were built by Government contractors before the sale was ever put up and you did not have to mess around with them.

As a matter of fact, I know of more than one fellow in my State who got out of the timber business and got into the contracting business, because there was more money in building the roads than there was in harvesting the timber. And that pattern is even more pronounced right now.

I would also point out something which I think needs to be understood for the record. Some of the older roads that are built to lower standards from the time they were built are still perfectly good with respect to harvesting the timber.

The Forest Service will require that they be rebuilt before the timber sale, because you then interfere then with the other uses on that same road or it is not sufficient for modern-day standards for all of the traffic that is now there.

I came over one of those 3 weeks ago in Idaho, a road that was built by the Civilian Conservation Corps in the mid- to late-1930's and it is now being rebuilt because they are harvesting timber along a portion of that. And the only reason it is being rebuilt is because of the other traffic that is on that road. It is not because of the timber purchaser. It is because of all of the rest of the traffic.

Now, I have looked at that, but you have stimulated me. I am going to go back and look at that particular sale and see if that may not even be a deficit sale right now. I would not be at all surprised if it is. It is just above the Salmon River Bridge, most of that is deficit, the French Creek Road.

Mr. **Turner**. Yes, Senator, that sale is very deficit.

The **Chairman**. I assumed that it probably was.

Mr. **Turner**. Senator, that is not unique to your State. It is happening in California. The roads that I used, for example, fit yours to a "T." We upgraded the road to accommodate the other users.

Senator **Melcher**. I am sure if it is happening in California and Idaho, it is happening in Montana.

The **Chairman**. I have no doubt that that is correct.

Mr. **Dennison**. Mr. Chairman, I think if we look very closely at these we would find that there is a breach of the Roads and Trails Act in many cases, where we should not be required to build roads to a higher standard and need for the removal of timber and it is happening. And we have been complaining about it for a long time. It is a different issue now, but you raised it, and I thought I would verify it.

The **Chairman**. I am grateful for your testimony today, because I agree with Senator Melcher completely, that if there is to be any relief for any segment of the industry, that relief is going to have to be balanced. And I understand exactly what you are talking about with respect to termination being of no benefit in areas where there are marginal or deficit sales.

As a matter of fact, it would not really be balanced if you got termination on some that were not deficit sales, but they were simply marginal. You are just about to break even. Several years ago, we had a somewhat similar situation that emerged from my State in a very different context and that is the care of the elderly, in nursing homes, in which the care was a bill against the county commissioners, against the county.

When the county ran out of money they just did not pay the bill. But they expected the nursing home to continue to care for those public welfare cases. It is always amazing to me that people can sit by quietly and accept that as any kind of justice, where some people are expected to provide something for the public without being compensated for it equally with respect to other people.

The problem has been a long time in getting to where it is. The downturn and the decline in the lumber market simply has accelerated and made more obvious what was already the fact. And it is going to demand some adjustment and for some of our friends who are outside who look at this as an undue enrichment of the timber industry throughout an area of our country where it has become a disgraceful practice, it seems to me to be a disservice.

I hope that they will take another look at their opposition, take another look at perhaps some way in which we can again strengthen the provisions of the statute to which you have made reference, Mr. Dennison, because we did carefully write those statutes when they were written.

This argument is not a new one. We have been there before and we wrote a law, which I thought, was equitable, which many of these organizations that now oppose the concept supported it when they were written and they are coming back for another bite of the apple.

Thank you, Senator Melcher, and thank you, gentlemen, for your testimony today. I hope when we get around to writing a resolution to the problem we will be able to merge in some part of the concerns which you have expressed here today. And I will guarantee if it is not done now, it will be done some other way, some other time.

There is another rollcall on the floor of the Senate. The committee will recess subject to the call of the Chair and we will be back to hear the balance of the panelists. Thank you.

[Whereupon, there was a recess.]

The **Chairman**. The committee will come to order. The next witness is Mr. Harold Rutherford, commissioner of Lane County, Eugene, Oreg.

STATEMENT OF HAROLD RUTHERFORD, COMMISSIONER OF LANE COUNTY, EUGENE, OREG., REPRESENTING THE NATIONAL ASSOCIATION OF COUNTIES

Mr. **Rutherford**. Mr. Chairman, thank you very much for the opportunity to appear before your committee on this very important measure. I would like to first, if I could, introduce myself. I am Harold Rutherford and I serve as a commissioner for Lane

County, Oreg. I have also served on the Governor's Timber Strategy Panel, which was set up to recommend solutions for the unprecedented crisis affecting Oregon's timber industry and citizens.

Oregon is the Nation's No. 1 timber State, producing more softwood from more standing timber than any other State. Timber products represent the No. 1 industry in Oregon. The Willamette National Forest, in my county, is the most productive forest in the national forest system.

Mr. Chairman, I will delete a portion of my testimony, but you do have it in written form.

The **Chairman**. Your entire statement is part of the record.

Mr. **Rutherford**. Thank you, sir. I am here primarily to talk about how these economic conditions have impacted western counties. Specifically, those counties with national forests which are heavily dependent on timber activities in those forests for timber revenues and employment.

The situation is near catastrophic for those communities, the States, the schools, public services and the unemployed. The counties are the direct beneficiaries when Federal timber is sold. And counties have to bear the economic consequences of these contracts.

Understandably, the harvest, management, and long-term policies on the national forests are of great importance to counties. By Federal law, 25 percent of the gross national forest receipts are returned to the counties in which the forests are located to be used for schools and roads. These funds are only generated when timber is cut and removed from the national forests by contract holders. Because of the current economic conditions a large percentage of timber under contract cannot be harvested and national forest receipts are going to be drastically reduced.

The U.S. Forest Service has provided us with estimated receipts for 1982 and you have those figures before you. I might say that the information that we have received from the Forest Service on those projections to date have not been at all accurate and I dare say we are going to be looking at much lower percentages than those that are represented here.

These losses do not fall equally among counties. For example, while estimates for Washington only point to an 8 percent reduction, receipts for the Okanogan National Forest are down 68 percent. Shoshone County, Idaho, has already suffered a 30-percent reduction. In many counties, these receipts are a large part of the county budgets.

Because counties nationwide are struggling with reduced budgets, the impact of this disruption could be crippling and will be felt far beyond the schools and roads. Counties cannot make up the shortfalls from timber receipts by increasing tax levies, especially where the economy is depressed and unemployment is so high.

I might state my county can attest to those, because we have tried almost twice a year for the last 3 years and have been resoundingly defeated at the polls. I am sure, Mr. Chairman, you are aware of the situation that Idaho has with the 1-percent initiative; Wyoming and Montana have an overall limitation on county mill levies. Oregon has a 6-percent limitation on local budget increases.

You might be interested to know that they are going to be faced with a 1½-percent limitation on the ballot this November 2.

The impact of reduced timber receipts will further force counties to lay off or furlough more employees and cut back even more essential services. For example, in Oregon, most of the timber counties have been forced already to reduce their work force by an average of 30 percent and in many cases are only open for business four days a week. Oregon has also reported that 36 school districts may not have the money to open their doors next year.

In addition to increasing layoffs by counties, unemployment in the forest products industry throughout the West is at near record levels, or about 30 to 34 percent in the region. In many counties the sawmill is the most important or single employer. Aside from the stark human tragedy this situation creates, counties must increase services to help these individuals and their families and many counties simply don't have the resources.

I think it is clearly evident market conditions have not improved and as we all know are getting worse. Economic conditions could create a potential default situation of an enormous dimension. Many small- and medium-sized companies are on the verge of bankruptcy and others have already gone under.

In the West, these companies are dependent on the national forests for their timber. Large scale defaults would be disastrous for the counties, as well as all other segments of society.

Because the situation is so complex, existing administrative authority has not been sufficient to provide an adequate remedy. Legislation is necessary to provide more authority, authority directed toward relieving the present crisis. Without some kind of relief, a large segment of the West's economy may not ever recover.

Oregon, Washington, and California have each passed legislation to modify timber sales contracts on their State forests. The legislation before this subcommittee has provisions similar to those in the State bills.

Federal legislation is appropriate because the Federal Government is so closely tied to industry in a contractual relationship, in which the counties also directly participate.

NACo is generally supportive of the legislation. We feel it is based on simple logic and understanding of the problems. Regardless of the reasons, contracts entered into at different times are not operable in today's economy and will not be activated. The trees covered by thousands of contracts will not be cut.

Additionally, we feel that to enforce the terms of the contracts, especially upon the small- and medium-sized operators, will force many into bankruptcy. We support contract price adjustments to reflect today's market conditions and to remove the threat of potentially fatal economic pressures. However, we do have reservations about other aspects of the bill.

We do not see any need for an extension of 5 years as is proposed. The Forest Service already has authority to grant extensions in the public interest. Last November they granted a second set of extensions that will run into 1985. We do not feel a further 5-year extension would help the immediate situation and may delay even further the harvesting of timber.

Further, we are troubled by the term "economic hardship." We believe the legislation should precisely define the criteria, perhaps using the Federal bankruptcy statute as a guide. As written now, the term is far too broad and subject to misapplication. We feel it should be spelled out in the bill and not left only to regulations.

We also feel there should be a penalty for contract termination. We recognize that the default provisions in existing law are onerous in the present crisis and would only serve to force operators out of business. No one wants that result. However, companies should be liable for some form of damages.

We recommend that the legislation include forfeiture of the bond the operator put up with the bid and the operator should reimburse the Government's costs on reissuing the sale. And here, I would like to elaborate on my written testimony and state that possibly a small percentage of difference between the present use and the new sale levels, always bearing in mind that the major portion of the responsibility for that difference between the previous and new level lies squarely on the shoulders of our Federal Government, its agencies, and others as well.

I might digress a moment to state that it is almost unthinkable for me to have OMB indicate that industry should take the brunt of this load when we all bear a portion of the responsibility. I am talking about the county government and the Federal Government. Nobody from the county government came forward and nobody from the Federal Government came forward when the money was coming, when we were looking at the 500,000 to 600,000 receipts coming in 5 years down the road and no one came forward to say we need to do something about the high bidding that was going on. We were counting on that money.

We feel also that the Government should consult with the affected county before terminating a contract. The interest of the county as a third party is as strong as the two parties to the contract. Again, I might like to say I feel OMB's action is a kind of face-saving action and if you might allow me to mix a metaphor, Mr. Chairman, I believe they are cutting of your nose and my nose to save their face. When they are cutting off that nose, part is the county's.

Finally, we urge careful attention to making the modifications apply with equal impact to all contract holders in all regions, both in the fir belt and in the pine regions of the inland States. The legislation should apply equally to all federally managed forests.

Mr. Chairman, the last portion of my written statement has to do with the purchaser credits and it is the official position of NACo that we felt that the purchaser credit portion should not be included in this bill. I have heard so much information today that leads me to believe that I should take this back to the members for their consideration to see if they want to change their position on it or have another idea on it.

This really concludes all of my prepared testimony and I would be very glad to answer any questions you might have.

[The prepared statement of Mr. Rutherford follows:]

TESTIMONY OF HAROLD RUTHERFORD ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES ON S. 2805 AND S. 2818, TO MODIFY TIMBER SALES CONTRACTS, BEFORE THE SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER OF THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES, AUGUST 17, 1982.

Mr. Chairman and Members of the Subcommittee:

My name is Harold Rutherford, and I serve as a Commissioner for Lane County, Oregon. I have also served on the Governor's Timber Strategy Panel which was set up to recommend solutions for the unprecedented crisis affecting Oregon's timber industry and citizens.

Oregon is the nation's number one timber state, producing more softwood from more standing timber than any other state. Timber products represent the number one industry in Oregon. The Willamette National Forest, in my county, is the most productive forest in the national forest system. Of Oregon's 36 counties, 31 receive a share of revenues from the national forest system.

We appreciate this opportunity to testify on the legislation before you to provide contractual relief to the economically depressed forest products industry. The other witnesses here will discuss the economic conditions that have led to the worst decline of the west's timber economy since the depression of the 1930's.

The National Association of Counties is the only national organization representing county government in the United States. Through its membership urban, suburban, and rural counties join together to build effective, responsible county government. The goals of the organization are to:

- improve county government;
- serve as the national spokesman for county government;
- act as a liaison between the nation's counties and other levels of government; and
- achieve public understanding of the role of counties in the federal system.

I am here to talk about how these conditions have impacted western counties. Specifically, those counties with national forests which are heavily dependent on the timber activities in those forests for timber revenues and employment. The situation is near catastrophic - for those communities, the states, the schools, public services, and the unemployed. In Oregon, as well as other western states, the situation has affected all segments of the economic, political, and social structure.

The counties are the direct beneficiaries when federal timber is sold. While they may not be actual parties to the contracts between the operators and U.S. Forest Service, it can be strongly argued that they hold a vested right in those contracts. And, counties have to bear the economic consequences of those contracts. Understandably, the harvest, management and long-term policies on the national forests are of great importance to counties.

By federal law, 25 percent of the gross national forest receipts are returned to the counties in which the forests are located to be used for schools and roads. These funds are only generated when timber is cut and removed from the national forests by contract holders. Because of the current economic conditions a large percentage of timber under contract cannot be harvested, and national forest receipts are going to be drastically reduced. For example, on the west side of Region 6, 82 percent of sold standing timber cannot be harvested economically. On the east side, 39 percent can't be cut economically.

The U.S. Forest Service has provided us with estimated receipts for 1982. However, these are their March 31, 1982, estimates, and they will shortly come out with new ones which we believe will be down even further from 1981. Montana receipts for 1982 will be down 36 percent from 1981; Idaho 34 percent; California 50 percent; and Arizona 46 percent. The March predictions point to a reduction of 37 percent for Oregon, but the Association of Oregon Counties has already estimated a 50 percent drop.

These losses do not fall equally among counties. For example, while estimates for Washington only point to an 8 percent reduction, receipts for the Okanogan National Forest are down 68 percent. Shoshone County, Idaho, has already suffered a 30 percent reduction. In many counties, these receipts are a large part of county budgets.

Because counties nationwide are struggling with reduced budgets, the impact of this disruption could be crippling, and will be felt far beyond the schools and roads. Counties cannot make up the shortfalls from timber receipts by increasing tax levies, especially where the economy is depressed and unemployment is so high.

County officials in Oregon, Idaho, Wyoming, and Montana, for example, have all emphasized the near impossibility of raising revenues through taxes. Idaho has imposed a revenue tax freeze since 1978 with the One Percent Initiative; Wyoming and Montana have an overall limitation on county mill levies. Oregon has a 6 percent limitation on local budget increases.

The impact of reduced timber receipts will further force counties to lay off or furlough more employees and cut back even more essential services. For example, in Oregon, most of the timber counties have been forced already to reduce their work force by an average of

30 percent, and in many cases are only open for business four days a week. Oregon has also reported that 36 school districts may not have the money to open their doors next year.

In addition to increasing layoffs by counties, unemployment in the forest products industry throughout the west is at near record levels, or about 30-34 percent in the region. In many counties the sawmill is the most important or single employer. Aside from the stark human tragedy this situation creates, counties must increase services to help these individuals and their families, and many counties simply don't have the resources.

In Oregon, nine months ago 17,000 workers were unemployed because of the timber slump. Today 25,000 have no jobs. There are 210 mills and timber complexes under normal conditions. Right now 74 are shut down or severely curtailed.

In Washington, 20,218 people are normally employed in 170 mills. 6,800 workers and 61 mills have been affected.

Idaho has been suffering a depression in both its timber and mining industries. Ten counties in Idaho employ the majority of 9,400 forest products workers, 3,100 of whom have been affected. And out of 74 mills, 26 have been closed or curtailed.

These alarming statistics are just three examples. And they only describe the sawmills. I haven't even mentioned the situation in other areas of the forest products industry, all of which have been affected.

Cleary market conditions have not improved and, as we all know, are getting worse. Economic conditions could create a potential default situation of an enormous dimension. Many small and medium sized companies are on the verge of bankruptcy, and others have already gone under. In the west, these companies are dependent on the national forests for their timber. Large scale defaults would be disastrous for the counties, as well as all other segments of society.

Because the situation is so complex, existing administrative authority has not been sufficient to provide an adequate remedy. Legislation is necessary to provide more authority - authority directed towards relieving the present crisis. Without some kind of relief, a large segment of the west's economy may not ever recover.

Oregon, Washington, and California have each passed legislation to modify timber sales contracts on their state forests. The legislation before this Subcommittee has provisions similar to those in the state bills.

Federal legislation is appropriate because the federal government is so closely tied to industry in a contractual relationship, in which the counties also directly participate.

NACo is generally supportive of the legislation. We feel it is based on simple logic and understanding of the problems. Regardless of the reasons, contracts entered into at different times are not operable in today's economy, and will not be activated. The trees covered by thousands of contracts will not be cut. Additionally, we feel that to enforce the terms of the contracts, especially upon the small and medium-sized operatios, will force many into bankruptcy.

We support contract price adjustments to reflect today's market conditions and to remove the threat of potentially fatal economic pressures.

However, we do have reservations about other aspects of the bill.

We do not see any need for an extension of 5 years as is proposed. The Forest Service already has authority to grant extensions in the public interest. Last November they granted a second set of extensions that will run into 1985. We do not feel a further five year extension would help the immediate situation, and may delay even further the harvesting of timber.

Further, we are troubled by the term "economic hardship." We believe the legislation should precisely define the criteria, perhpas using the federal bankcruptcy statute as a guide. As written now, the term is far too broad and subject to misapplication. We feel it should be spelled out in the bill and not left only to regulations.

We also feel there should be a penalty for contract termination. We recognize that the default provisions in existing law are onerous in the present crisis, and would only serve to force operators out of business. No one wants that result. However, companies should be liable for some form of damages. We recommend that the ligislation include forfeiture of the bond the operator put up with the bid, and the operator should reimburse the government's costs on reissuing the sale as well as a percentage of the difference between the previous and new sale levels. Termination without any penalty is not justifiable.

We also feel that the Government should consult with the affected county before terminating a contract. The interest of the county as a third party is as strong as the two parties to the contract.

Finally, we urge careful attention to making the modifications apply with equal impact to all contract holders in all regions, both in the fir belt and in the pine regions of the inland states. The legislation should apply equally to all federally managed forests.

Before I conclude, I want to comment on a proposal that had been under consideration during the last months but, wisely, did not become part of the legislation before you. I refer to the provision permitting companies to transfer purchaser credits from one national forest to another, including "ineffective" purchaser credits.

We would strongly oppose adding this provision to the current bills. This issue is not related to the current recession, and would in no way relieve it. In fact, it would increase federal deficits by substantially adding to Forest Service costs.

This provision would not help those companies on the verge of bankruptcy, most of whom do not operate in other regions. It would exacerbate their situation by creating unfair competition.

Finally, we feel this provision would have a most detrimental impact on counties.

This concludes my statement. We want to commend the Sponsors and the Subcommittee for their efforts. I would be pleased to respond to any questions you may have.

The **Chairman**. Mr. Rutherford, thank you very much for your testimony and I appreciate your last statement, because I was going to comment on the fact that you said this legislation must apply equally in all regions, but it does not without some recognition of the difference in bidding practices and so I appreciate your willingness to take another look at that.

I appreciate your testimony. It is a tremendous matter to deal with. I think it is very possible this can be looked at on a regional concept basis. It does vary from region to region. It varies from one side of the State of Oregon to the other. It varies from the Western States to the Northern States. It could be looked at on a regional concept basis.

Thank you for your testimony. I appreciate it very much.

We will now hear a panel of Mr. Gus Kuehne, executive vice president, Northwest Independent Forest Manufacturers, Tacoma, Wash.; Mr. Jim Manke, general manager, Manke Lumber Co., Tacoma, Wash.; and Mr. Norm Bjorklund, executive vice president, Industrial Forestry Association, Portland, Oreg.

STATEMENT OF M. J. KUEHNE, EXECUTIVE VICE PRESIDENT, NORTHWEST INDEPENDENT FOREST MANUFACTURERS, TACOMA, WASH.

Mr. **Kuehne**. Mr. Chairman, I am Gus Kuehne, executive vice president of Northwest Independent Forest Manufacturers, an association with 30 members in Washington State who operate approximately 40 sawmills, which are heavily dependent on national forest timber.

I will summarize my statement and hope the whole statement will be included in the record.

The **Chairman**. Your entire statement will be included in the record.

Mr. **Kuehne**. I will try to say a few words and bring up a few points that you have not heard, but that is difficult in a hearing that has progressed over several days and I have not been here during that entire time.

The decade of the 1980's will be the golden age of single-family housing, as the baby boom of post-World War II outgrows condos and apartments, the United States will average over 2 million housing starts a year in the decade of the 1980's. The demographics of the population are such that the 1980's will see the highest level of housing starts in our history.

These were the forecasts of business and Government economists that rang loud and clear in 1978 and 1979. During this same period studies predicted declining availability of timber in the Northwest. The Tri-State Commission, the State of Oregon, the State of Washington, and the U.S. Forest Service all agreed timber supplies would decline 10 percent to as much as one-third over harvest levels in the 1970's.

Predicted higher demand for wood products and reduced timber supply resulted in bids on cutting rights for national forest timber doubling, rising from $200 per thousand board feet in late 1977 to $400 in early 1980. This was the most rapid increase in the 75-year history of selling timber from the national forest lands.

We know that the projections of the economists in the late 1970's were 180° off. High interest, driven by record shattering Federal budget deficits, threw the housing industry into the worst depression since the 1930's.

There has been a lot said about unemployment in various areas and I would just say this about unemployment in the State of Washington. A couple of weeks ago the figures that I saw showed that the State of Washington's unemployment was second only to Michigan in the unemployment statistics of that month. We have been similar to that in Oregon and slightly ahead of it.

We hope we don't reach and exceed Michigan. Not only is the forest products industry the leader in the downturn, but the aerospace industry in the State is depressed as well. I would point out to you that one of the urgencies for action that has not been discussed previously is that the State legislature in the State of Washington considered strongly when they passed legislation allowing for termination of State timber, was that we have a considerable volume of timber that has blown down. In 1979 the largest storm, which we call the Lincoln Day storm, that blew down the Hood Canal Bridge and several hundred million board feet of timber in the State. That timber, much of it hemlock, is subject to deterioration in several years and if it is not removed next summer it will be unsalvageable. And the statements vary as to the volume. It is believed to be a minimum of 70 million board feet and may be in excess of that.

This timber simply cannot be removed because it was bid at prices of three to four times the current levels and in many cases those prices exceed the price that one can sell the final product for as it lays in the woods. I suggest to you if this legislation is not passed in the next several months it allows for the termination of this timber, its prompt resale on short-term contracts that lawyers will simply fight over the values that once were there.

I would like to speak a little about the administration's position and some of the current bills. It seems to us as though, having just heard the administration's position a couple of hours ago, that this default policy position would essentially drive us into receivership. After the timber is resold at some future time and damage is determined, as I understand it from their proposal.

We would then have some sort of a bargaining as to how we might repay that timber. I guess the promise was that it would not drive anybody into bankruptcy. I assume by that then that somebody that was within a couple of cents away from bankruptcy, by their termination, could pay 1 cent and somebody who had more assets would have to forego those assets to the point where they would make payments so that they were within 1 cent of bankruptcy.

This means it would drive everybody into a position over a period of years where they are all capital poor, unable to make any improvements necessary to stay competitive and drive them into poor cash conditions or whatever. That would overhang the industry for a decade or more and lead to the ultimate decline of the industry in the Pacific Northwest, because of this constant threat, where not only would bankers be deciding what we do but the Government combined with bankers would tell us how to operate our companies.

Regarding S. 2818, as I stated one of the major reasons for our opposing simply an extension policy is that it would do nothing to help this distressed timber, the timber that has blown down and must be removed immediately. Extending that would just assure its loss and any industry compromise bill that was outlined, that has been submitted previously, extension would not be allowed for this distressed timber but its termination and prompt resale.

As far as S. 2805 is concerned, we are obviously nervous about giving the administration the discretion of how it would write rules and regulations about circumstances where they don't support the concepts that are involved.

I would hope that any bill now drafted would be very comprehensive in the nature you are directing, in fact, how the details of such a program would be handled.

A year ago Northwest Independent Forest Manufacturers Association did support the termination bill that Congressman Weaver introduced and we felt that it was fair and at that time we strongly supported it. We are, however, in support of the forestry compromise bill and I would assure you that that includes the effective purchaser credit issue, as well as the termination and the extension or a contract term adjustment provision.

Thank you.

[The prepared statement of Mr. Kuehne follows:]

STATEMENT OF M. J. KUEHNE

Mr. Chairman and members of the Subcommittee: I am M. J. Kuehne, Executive Vice President of Northwest Independent Forest Manufacturers. NIFM is a forest products association with 30 members in Washington State who operate approximately 40 sawmills, plywood plants, veneer plants and shake and shingle mills. Our members manufacture building materials primarily from national forests and state-owned timber for sale primarily in the U.S. market. We represent the majority of such manufacturers in the small and medium sized class that are independently owned, that is, they are owned primarily by the people who manage and run the mills. Nearly all are classed as small business, having less than 500 employees.

At the outset, let me say we very much appreciate this opportunity to acquaint members of Congress and particularly the members of this subcommittee with the devastating problems we face in attempting to operate Federal Timber Sales. I will describe how we got in this unprecedented disaster and suggest what may be done so that some independent mills can survive!

"The decade of the 80's will be the golden age of single-family housing * * * as the baby boom of post World War II outgrows condos and apartments, the U.S. will average over 2 million housing starts a year in the decade of the 80's * * * The demographics of the population are such that the 80's will see the highest level of housing starts in our history!" These were the forecasts of business and government economists that rang loud and clear in 1978 and 1979. During this same period, study after study predicted declining availability of timber in the Northwest. The Tri-state Commission, the State of Oregon, the State of Washington and the U.S. Forest Service all agreed, timber supplies would decline 10 percent to as much as one-third over harvest levels in the 70's.

Predicted higher demand for wood products and reduced timber supply resulted in bids on cutting rights for national forest timber doubling, rising from $200 per thousand board feet in late 1977 to $400 in early 1980. This was the most rapid increase in the 75-year history of selling timber from the national forest lands.

As everybody in the country, save possibly a couple of hermits, is aware, the economic forecasts of the late 70's were off 180°. High interest, driven by record shattering federal budget deficits, threw the housing industry into the worst depression since the 30's. Lumber prices plummeted to nearly half the levels of late 1979. Virtually every sawmill, plywood plant, shake mill in the northwest experienced some level of closures. The economy of the Northwest, where forest products employment is the largest industrial employer, was driven to the highest level of unemployment since the great depression of the 1930's.

Virtually every mill that is dependent upon federal or state timber for its raw material supply has suffered significant financial losses over the last 2½ years. Many have lost the profits of a decade or more. Labor has suffered seriously with many millworkers and loggers losing their jobs; others working reduced hours; and normal wage increases deferred, eliminated or wage rate reductions suffered. Even banks have adjusted loans to accommodate these difficult times. Many small and medium-sized mills struggling to survive have harvested timber on the 3 to 5 year sales purchased in 1978, 1979 and 1980 and sustained enormous losses. They have reached a point, however, where there is no way they can continue to operate these sales without driving themselves out of existence.

Last month, the U.S. Forest Service—Regional Office, completed an analysis of Oregon and Washington timber sales which showed 82 percent of the 12 billion board feet under contract in western Washington and Oregon to be uneconomical to harvest even in the best foreseeable market and 39 percent of the timber on the eastside to be in the same condition. The Forest Service projected that one-third of the timber on the westside of Washington and Oregon is $200 or more per thousand board feet above the break-even point. To operate this timber, companies would suffer losses in excess of a billion dollars which is another way of saying there is no way financially these timber sales can be operated.

In 1936, the last time we faced this kind of depression, Congress passed a bill which allowed for the termination of timber sale contracts on federal land. It is absolutely essential Congress do so again.

The Washington State legislature in March passed legislation allowing for a termination of state timber sale contracts and providing for an extension of others. The July 14 draft legislation referred to by previous witnesses is very similar. We strongly support prompt passage of this legislation. If this legislation is not passed promptly about 100 million board feet of the timber under contract that was blown down by the Lincoln Day storm in 1979 and other winter storms in 1978, 1979 and 1980 will have so badly deteriorated it will be unsalvageable. This timber was sold at high market prices of 1979 and 1980, at three to four times its value today and it can not be harvested at those prices. The sales must be immediately terminated, resold at current prices and timber removed in the next 12 to 18 months or it will simply be lost and lawyers will fight over the values that once existed.

The question is not whether the federal government will receive the prices bid for these timber sales or forego that revenue for the lower prices the timber resells for today. The question is should legislation be passed to deal with the problem by allowing some of the timber to be terminated and extending the remainder; or should the chaos of uncontrolled default of hundreds of sale contracts, and dozens of lawsuits which will ensue, determine the fate of mills and dependent communities throughout the northwest. For the schools, the counties and state government which share in the receipts from federal sales, I would say * * * they share in the receipts from the timber that is harvested! Timber at these artificially high values bid in the late 70's and early 80's, will not be harvested! Mills will not operate! Loggers and store clerks and equipment suppliers * * * and the economy of the northwest will not recover! Only if timber is available at a price that mills can come close to breaking even will timber be harvested and that can not happen if contract termination legislation is not passed.

Congress should pass a Federal Timber Sale Contract Relief bill for the good of the country so that a viable, independent forest industry of small, medium-sized and large companies can survive to respond when the housing market does return.

The CHAIRMAN. Thank you.
Mr. Manke.

STATEMENT OF JAMES D. MANKE, GENERAL MANAGER, MANKE LUMBER CO., TACOMA, WASH.

Mr. MANKE. Mr. Chairman, I am James D. Manke, general manager of Manke Lumber Co., Tacoma, Wash. Our company was founded in 1950 when we began with a small portable sawmill. In 1965 we built the Tacoma sawmill and in 1979 completed renovation of a new mill in Sumner, Wash.

Our company grew from less than a dozen employees in the 1950's and early 1960's to 367 in 1979. My brothers and I built Manke Lumber Co. into the 53d largest lumber producer in the United States in 1979. We manufacture lumber from both private lands and national forest timber sales. The vast majority of the lumber we have manufactured was sold in the United States.

We believe we have grown in the lumber business because we are efficient, aggressive, and hard-working independent businessmen. We survived through the decade of the 1970's when many less innovative and efficient mills in the Northwest failed. The problems we face today, however, are so massive that virtually all companies who purchase Federal timber, survival is threatened. The basic problem today is the selling cost of lumber is less than the logging and manufacturing of that log into lumber.

We are not attempting here to seek legislation that insulates us from losses. We have sustained very significant losses in the last several years. In our fiscal year which runs from May 1 to April 30, in 1980 we lost as much money in the last half of the year as we made in the first half. In 1981 we sustained a $5 million loss and in 1982 a $6 million loss. We don't feel that we can do this forever and we cannot.

S. 2818 simply extends timber sale contracts into the future. We have several contracts, however, where extension will be of no value. The Silver BDS Timber Sale is timber blown down in the 1979 Lincoln Day storm, and Mr. Kuehne touched upon this. It contains approximately 5 million board feet of Hemlock timber.

We estimate our losses in attempting to operate this sale would be approximately $250 per 1,000 board feet on today's market. If the timber on this sale is not harvested in the next 12 to 18 months, it will have decayed to such a degree that most of the timber will be unsalvageable.

Yet, I can tell you, we cannot operate that timber sale. The only way that timber will be harvested is if legislation is passed allowing that sale to be terminated, reoffered at today's prices on a short-term contract that will require its removal within the next year.

We also have a timber sale on which we intended to build the road and have decked the right-of-way logs. This sale was purchased in the spring of 1980 at prices where the losses today, if we removed the right-of-way decks, would be in excess of $300 per 1,000 board feet. We simply cannot afford to remove those right-of-way decks.

We strongly urge your passage of legislation allowing for termination and extension of Federal timber sales. Thank you.

[The prepared statement of Mr. Manke follows:]

STATEMENT OF JAMES D. MANKE

Mr. Chairman and members of the subcommittee: I am James D. Manke, General Manager of Manke Lumber Company, Tacoma, Washington. Our company was founded in 1950 when we began with a small portable sawmill. In 1965 we built the Tacoma sawmill and in 1979 completed renovation of a new mill in Sumner, Washington. Our company grew from less than a dozen employees in the 1950's and early 60's to 367 in 1979. My brothers, Chuck, Virgil and I built Manke Lumber Company into the fifty-third largest lumber producer in the U.S. in 1979. We manufacture lumber, from both private lands and national forest timber sales. The vast majority of the lumber we have manufactured was sold in the U.S.

We believe we have grown in the lumber business because we are efficient, aggressive and hard working independent businessmen. We survived through the decade of the 70's when many less innovative and efficient mills in the northwest failed. The problems we face today, however, are so massive that virtually all companies who purchase federal timber, survival is threatened. In September, 1979, the average price that we sold lumber for from our operations was $308. per thousand board feet. Over the past three years that price has dropped dramatically to approximately $200. per thousand board feet in November of 1981 and dropped even further to $180. last month. At the same time, the timber we are trying to manufacture into lumber was purchased on contracts at the high point of the market in 1979, 1980 and early 1981. It is virtually impossible to harvest the timber on these sales and survive as a company. Even sales purchased in the spring of 1982 must today be operated at a loss as lumber prices have fallen faster than timber bid prices.

We do plan to log four timber sales totalling 5 million board feet where our average loss will be approximately $90. per thousand board feet for a loss of nearly $500,000. This timber is on the Bonanza, Fifth Standard, Vest Pocket and Viola Creek timber sales. There is another 150 million board feet that we can not afford to log on todays market or any market that can reasonably be forecast in the next several years. The losses we would sustain in attempting to meet these contracts would simply drive us out of business.

Let me explain, we are not attempting here to seek legislation that insulates us from losses. We have sustained very significant losses in the last several years. In our fiscal year which runs from May 1 to April 30th, in 1980 we lost as much money in the last half of the year as we made in the first half. In 1981, we sustained a $5 million loss and in 1982 a $6 million loss.

Our employees have also made significant sacrifices. We have had to lay off 100 employees and many others have worked reduced hours. Wages for hourly employees have not increased since June, 1981. Salaried employees have not received a wage increase in over two years.

What we are asking for is legislation not just to help companies like us, but to avoid chaos that will occur when dozens of companies such as ourselves are forced to default on hundreds of timber sales and the repercussions that will cause * * * the financial institutions who we owe money * * * those who bond us * * * the legal chaos in which timber management programs on national forest lands will be thrown * * * and the economy of communities that are dependent on our mill and others that will suffer.

I would also like to explain the urgency for passage of this legislation. The McClure bill, S. 2818, simply extends timber sale contracts into the future. We have several contracts, however, where extension will be of no value. The Silver BDS Timber Sale is timber blown down in the 1979 Lincoln Day storm. It contains approximately 5 million board feet of Hemlock timber. We estimate our losses in attempting to operate this sale would be approximately $250. per thousand board feet on todays market. If the timber on this sale is not harvested in the next twelve to eighteen months, it will have decayed to such a degree that most of the timber will be unsalvageable. Yet, I can tell you, we can not operate that timber sale. The only way that timber will be harvested is if legislation is passed allowing that sale to be terminated, re-offered at todays prices on a short-term contract that will require its removal within the next year. We also have a timber sale on which we intended to build the road and have decked the right-of-way logs. This sale was purchased in the spring of 1980 at prices where the losses today, if we removed the right-of-way decks, would be in excess of $300. per thousand board feet. We simply can not afford to remove those right-of-way decks. Again, this timber will deteriorate if it is not terminated, sold at todays prices and removed within the next year.

Legislation must be passed this fall to allow for termination of this deteriorating timber, not just on our sales but on the scores of sales which it is my understanding, total nearly 100 million board feet in Oregon and Washington. This is timber that has been bid at prices that can not be logged and that will deteriorate if not logged within the next year and a half. Also, by postponing action on legislation dealing with green timber, it becomes difficult if not impossible to make realistic business plans with the continued uncertainly that would hang over our heads.

We strongly urge your passage of legislation allowing for termination and extension of federal timber sales. Manke Lumber Company supports the July 14th compromise industry draft legislation!

STATEMENT OF NORMAN E. BJORKLUND, EXECUTIVE VICE PRESIDENT, INDUSTRIAL FORESTRY ASSOCIATION, PORTLAND, OREG.

Mr. Bjorklund. Mr. Chairman, I am Norman Bjorklund, executive vice president of Industrial Forestry Association. Our association represents large, medium-sized, and small companies in western Oregon and western Washington, many of whom rely either wholly or substantially on timber purchased from public timber sources, principally the Federal Government, for their supply.

On behalf of our members, I say I wish to thank you, Mr. Chairman and Senator Hatfield, for the tremendous effort you have done in putting in a lot of work on this issue and giving us leadership, without which we would not be anywhere.

You were provided with our position paper on a comprehensive relief program that represents the Western industry. Our association supports that document. I think it is kind of important to review the fact that our association, I think most of the industry generally, was reluctant to really ask for contract relief.

When the potential defaults surfaced last year, some in our membership were opposed to even the minimal relief of contract term adjustment. However, as it became increasingly apparent that a near-term improvement in markets was unlikely, our association reluctantly relaxed its long-standing opposition to contract modifications and recommended that the U.S. Forest Service and Bureau of Land Management provide contract term adjustments of up to 3 years. Both agencies have subsequently provided contract extensions, but for a shorter period than we recommended.

When termination proposals were introduced last year, over 70 percent of our membership opposed them. And later, when Senator Hatfield's recommendations for rollback of stumpage prices on BLM contracts were proposed, our membership opposed that approach. I might add that our opposition to stumpage price rollbacks has not been amended.

However, earlier this year our association changed its position to agree to partial termination of purchaser's timber under contract to the two agencies and contract term adjustment of up to 5 years on the remaining volume.

The industry's position with regard to relief has been gradual and evolutionary. As the prospects for improved markets dimmed, industry's realization of the need for some form of contract relief increased. It is now apparent that we will not see a marked improvement in our economy before 1984 and a recovery which would permit economic operation of much of the high-priced timber under contract is several years away.

The prospect of massive timber sale contract defaults is very real. The extensions provided last year and earlier this year by the BLM and the Forest Service are the only reason that such massive defaults have not occurred yet. However, we are rapidly approaching the day of reckoning.

On the Willamette National Forest, for example, 73 percent of the volume under contract is estimated to be $300 per 1,000 board feet or more. That volume is economically inoperable in any foreseeable market. Only 13 percent of the volume is less than $200 per

1,000. According to the forest estimates, potential defaults could occur on nearly 200 million board feet between April 1983 and March 1984. Defaults have already occurred on several small salvage sales and more are expected on additional sales before March 1983.

It is highly unlikely that we will see any improvement in markets sufficient to permit this volume to be harvested in time to prevent default. For the purchasers holding those contracts, the problems begin well in advance of the default date. While the future of those contracts is in limbo, they cannot plan for their future, they are reluctant to buy more timber, even at current lower prices, and they may be unable to buy that timber in any case.

I would like to elaborate on that last point, because it has not been adequately emphasized. While outstanding contracts are in force, the performance bonds required prior to award of any sale are held by the Forest Service.

In general, bonding companies analyze the financial condition of a company and any existing bonds before granting additional bonding capacity which might allow additional timber purchases. There are cases already where bonding companies have refused to grant added capacity to purchasers.

Cash and negotiable securities, the only other security which the Forest Service will accept in lieu of a bond, are hardly viable options for many companies in the current economy. The company's only hope, in most cases, is to clear existing contracts by harvesting timber and thereby increase bonding capacity. But, in many cases, harvesting the high-priced timber under contract would result in insolvency.

So the purchaser is caught between the proverbial rock and a hard place. He cannot buy the cheaper timber on the current market until he frees bonding capacity and he cannot free his bonding capacity without harvesting high-priced timber under contract and risking insolvency. The only hope for these purchasers, in my opinion, is partial termination.

For those purchasers holding contracts which have been extended under agency policy, the costs of maintaining those extensions can also be burdensome, often ranging in the thousands of dollars per month. A capital drain of that magnitude, particularly when there is no offsetting income, can lead to insolvency. For many companies, the day of decision is rapidly approaching. They will have to opt to default on contracts by missing extension payment requirements or risk insolvency. A few in our region have already gone into default in this manner and more are likely to follow unless something is done soon.

We feel it is important to point out that not all of the high-priced timber under contract is green, standing timber. Some of it is in salvage sales where the timber is either dead, down, or dying. Some of it is felled and bucked or right-of-way timber on sales where the purchaser operated until he ran out of money to pay for the timber he was removing.

This material is perishable and must be removed as soon as possible to avoid deterioration which will result in an ultimate loss to the Federal Government. Since it is impossible to move most of this volume at current prices, something has to be done to retain its value. One way to accomplish this would be to allow the purchaser to terminate the sale immediately and rapidly reoffer it so that it can be purchased at prices more consistent with current markets.

The survival of a good share of our membership rests upon congressional recognition of the current problem and action to resolve it. Without action, we can expect the problem to escalate. While it is true that ultimate relief for our industry will come when interest rates fall to levels that allow more Americans to purchase homes, congressional action to relieve Federal timber purchasers is essential if industry capacity is to survive to fill that demand for wood.

Moreover, the fate of many timber-dependent communities also rests in the hands of Congress. Let me emphasize that this is neither a big industry or a small industry problem. All Federal timber purchasers, regardless of size, are affected. Nor is it a timber industry problem alone. State, county, and municipal governments, local wholesale and retail businesses, citizens, and taxpayers will be impacted by congressional action or inaction.

Our future viability is tied with that industry. If they go down, we go down also. In other words, the whole economy of the Pacific Northwest is tied up in this issue and we don't want to see it go down. We realize you have a tremendous job to do and we will try to support you to get this relief that certainly is needed.

[The prepared statement of Mr. Bjorklund follows:]

Statement of
N.E. Bjorklund, Executive Vice President
before the
Subcommittee on Public Lands & Reserved Water
of the
Senate Energy & Natural Resources Committee
on
S. 2805 and S. 2818
August 16 & 17, 1982
Washington, D.C.

Mr. Chairman and members of the Committee, I am N.E. Bjorklund, Executive Vice President of Industrial Forestry Association, headquartered in Portland. Our Association represents large, medium-sized and small companies in western Oregon and western Washington, many of whom rely either wholly or substantially on timber purchased from public timber sources, principally the Federal Government. In 1980 our members operated 430 manufacturing facilities throughout the Region and employed about 90,000. Since then, employment has dropped due to the general recession in the wood products industry.

You have already been provided with a position paper which represents a fair measure of consensus among representatives of western industry. Our Association, along with others listed, has agreed in general to the contents of that document. We are in complete agreement with its outline of the history of industry's situation. While the entire industry has been affected by the general downturn in homebuilding precipitated by high interest rates over the last 2-1/2 years, the industry in western Oregon and western Washington--largely members of our Association--have been most severely affected due to a combination of factors, most of which were the direct result of Federal Government actions over which we have no control. Since the position document accurately and concisely explains those circumstances, I will not belabor them here.

In summary, however, it should be reiterated that most of our members purchased a substantial portion of their current timber two or more years ago from the Federal Government at prices that reflected better market conditions, high inflation and a general concern over the future availability of timber. Then, in 1979, the Federal Government implemented monetary restraints which pushed interest rates beyond the reach of most homebuyers. This, coupled with a general restructuring in the financial community, also as the result of Federal actions to deregulate the financial institutions nationwide, reduced residential construction to post-WWII levels. The resulting impact on wood products markets has been devastating.

To illustrate, the Forest Service recently conducted a review of timber under contract to the U.S. Forest Service in Region Six, which is Oregon and Washington. Using current market values for wood products the agency determined break-even costs and compared them with contracts in the Region. Based on that analysis, the Forest Service determined that a third of the volume under contract in Western Oregon and Western Washington is $200 per thousand board feet or more above break-even rates; a third of the volume in Eastern Oregon and Washington is $100 per thousand or more above break-even rates.

But the Region went one step further. They assumed that their break-even calculation was $50 too low. Even with this error assumed, 82 percent of the volume under contract on the westside of the Region would be economically inoperable in any foreseeable market. (That's 82 percent of 12 billion board feet.) Thirty-nine percent of the five billion board feet under contract on the Eastside was in the same situation.

Bid prices on the Westside of Region Six have dropped markedly in the last few months. They are now at 1971-72 levels, or just over $100 per thousand board feet, and still falling. Forest Service appraisals have also fallen. (See the attached Forest Service charts.)

I think it is important to point out that neither our Association nor industry in general has embraced the concept of contract relief easily. When the potential defaults surfaced last year, some in our membership were opposed to even the minimal relief of contract term adjustment. However, as it became increasingly apparent that a near-term improvement in markets was unlikely, our Association reluctantly relaxed its long-standing opposition to contract modifications and recommended that the U.S. Forest Service and Bureau of Land Management provide contract term adjustments of up to three years. Both agencies have subsequently provided contract extensions,but for a shorter period than we recommended.

When termination proposals were introduced last year by Reps. AuCoin and Weaver of Oregon, over 70 percent of our membership opposed them. And later, when Senator Hatfield's recommendations for rollback of stumpage prices on BLM contracts were proposed, 60 percent of our membership opposed that approach. I might add that our opposition to stumpage price rollbacks has not been amended.

However, earlier this year our Association changed its position to agree to partial termination of purchasers' timber under contract to the two agencies and contract term adjustment of up to five years on the remaining volume.

I offer these facts to illustrate that industry's position with regard to relief has been gradual and evolutionary. As the prospects for improved markets dimmed, industry's realization of the need for some form of contract relief increased. It is now apparent that we will not see a marked improvement in our economy before 1984, and a recovery which would permit economic operation of much of the high-priced timber under contract is several years away at best.

The prospect of massive timber sale contract defaults is very real. The extensions provided last year and earlier this year by the BLM and the Forest Service are the only reason that such massive defaults haven't yet occurred. However, we are rapidly approaching the day of reckoning. On the Willamette National Forest, for example, 73 percent of the volume under contract is estimated to be $300 per thousand board feet or more. That volume is economically inoperable in any foreseeable market. Only 13 percent of the volume is less than $200 per thousand. According to the Forest's estimates, potential defaults could occur on nearly 200 million board feet between 4-1-83 and 3-31-84. Defaults have already occurred on several small salvage sales and more are expected on additional sales before 3-31-83.

It is highly unlikely that we will see any improvement in markets sufficient to permit this volume to be harvested in time to prevent default. For the purchasers holding those contracts, the problems begin well in advance of the default date. While the future of those contracts is in limbo, they cannot plan for their future, they are reluctant to buy more timber, even at current lower prices, and they may, in fact, be unable to buy that timber in any case.

I would like to elaborate on that last point, because it has not been adequately emphasized. While outstanding contracts are in force, the performance bonds required prior to award of any sale are held by the Forest Service. In general, bonding companies analyze the financial condition of a company and any existing bonds before granting additional bonding capacity which might allow additional timber purchases. There are cases already where bonding companies have refused to grant added capacity to purchasers. Cash and negotiable securities, the only other security which the Forest Service will accept in lieu of a bond, are hardly viable options for many companies in the current economy. The company's only hope, in most cases, is to clear existing contracts by by harvesting timber and thereby increase bonding capacity. But, in many cases, harvesting the high-priced timber under contract would result in insolvency.

So, the purchaser is caught between the proverbial rock and a hard place. He can't buy the cheaper timber on the current market until he frees bonding capacity and he can't free his bonding capacity without harvesting high-priced timber under contract and risking insolvency.

The only hope for these purchasers, in my opinion, is partial termination.

For those purchasers holding contracts which have been extended under agency policy, the costs of maintaining those extensions can also be burdensome, often ranging in the thousands of dollars per month. A capital drain of that magnitude, particularly when there is no offsetting income, can lead to insolvency. For many companies, the day of decision is rapidly approaching. They will have to opt to default on contracts by missing extension payment requirements or risk insolvency. A few in our Region have already gone into default in this manner and more are likely to follow unless something is done soon.

We feel it is important to point out that not all of the high-priced timber under contract is green, standing timber. Some of it is in salvage sales where the timber is either dead, down or dying. Some of it is felled and bucked or right-of-way timber on sales where the purchaser operated until he ran out of money to pay for the timber he was removing. On the Willamette National Forest, the agency estimates 31 million bd. ft. of right-of-way timber alone is in this category. On the Olympic National Forest, 30 million bd. ft. of salvage timber --primarily blowdown--is in the same situation.

This material is perishable and must be removed as soon as possible to avoid deterioration which will result in an ultimate loss to the Federal Government. Since it is impossible to move most of this volume at current prices, something has to be done--and done soon--to retain its value. One way to accomplish this would be to allow the purchaser to terminate the sale immediately and rapidly reoffer it so that it can be purchased at prices more consistent with current markets.

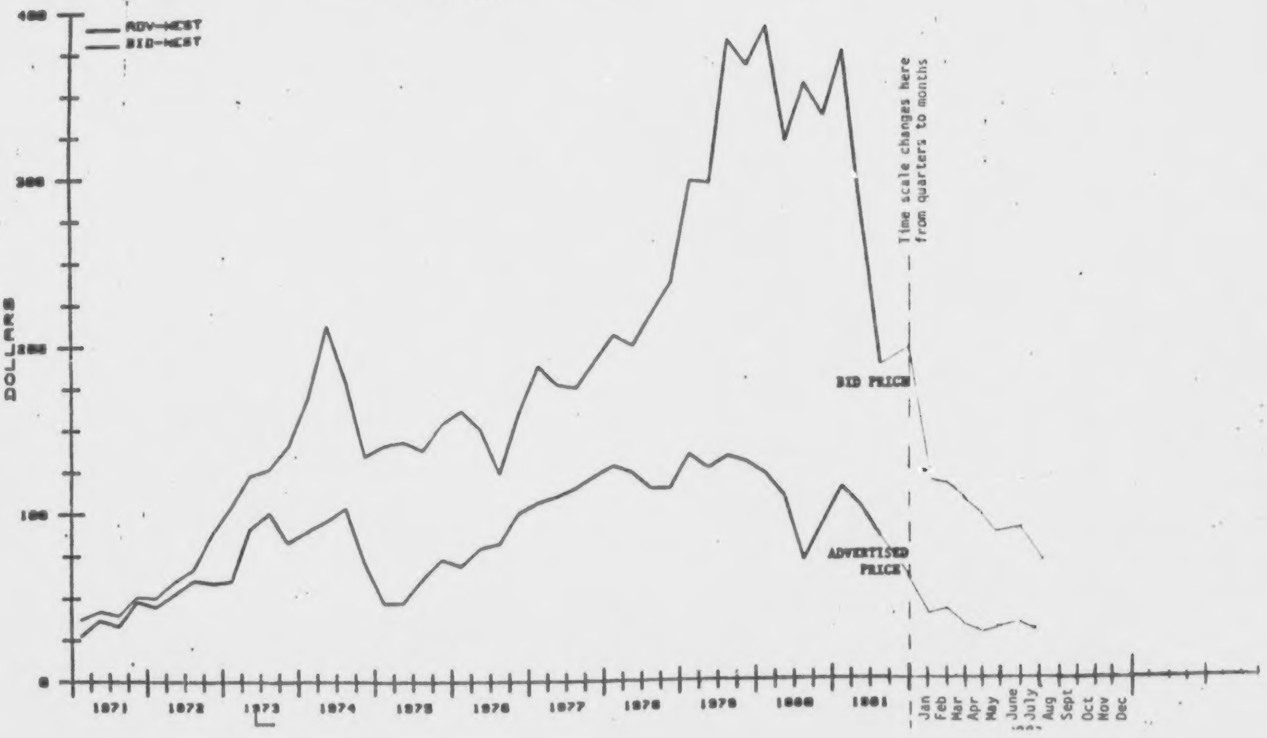
S. 6913, introduced by Senator Hatfield, offers partial solutions to problems outlined in the position document. But we agree that it is unacceptable as framed. We do support the industry compromise.

S. 2818, introduced by Senator McClure, offers only a delay of the inevitable. Contract term adjustments, as authorized by the bill, would prevent massive defaults in the near future, but would not solve the immediate bonding capacity problems I mentioned earlier. Nor would it provide the means to assure rapid removal of perishable salvage and felled and bucked timber. As it stands, 2818 is incomplete.

The survival of a good share of our membership rests upon Congressional recognition of the current problem and action to resolve it. Without action, we can expect the problem to escalate. While it is true that ultimate relief for our industry will come when interest rates fall to levels that allow more Americans to purchase homes, Congressional action to relieve Federal timber purchasers is essential if industry capacity is to survive to fill that demand for wood. Moreover, the fate of many timber-dependent communities also rests in the hands of Congress. Let me emphasize that this is neither a big industry or a small industry problem...all Federal timber purchasers,regardless of size, are affected. Nor is it a timber industry problem alone. State, county and municipal governments, local wholesale and retail businesses, citizens and taxpayers... all will be impacted by Congressional action or inaction. We ask for your consideration and your compassion.

Region 6 - USFS
Bid Monitoring Report

R-6 - USFS
COMPARISON OF ADVERTISED AND BID STUMPAGE
West Side



The CHAIRMAN. Thank you very much.

I think there may be a valid point with respect to salvage sales. I think it is well merged into our discussion because it is obviously a difficult problem. I am a little concerned with one of the points you made, Mr. Bjorklund. That is the contract term adjustment does not solve bonding capacity questions and what you are talking about, I assume is that so long as the company has high volumes under contract and their financial capacity is low they cannot buy new sales. Is that right?

Mr. BJORKLUND. The only way we can see to get cheaper timber to blend with this is to get rid of part of the sales they already have under contract.

The CHAIRMAN. Contract term adjustment in this connection would be of help?

Mr. BJORKLUND. Yes.

The CHAIRMAN. That would be better than simple extension.

Mr. BJORKLUND. That is right and that was our point.

The CHAIRMAN. You gentlemen come from a different region. Are you opposed to the solution that has been suggested by the inland operators that in order to get any relief there has to be a different vice and they have come up with the ineffective purchaser credit.

Mr. BJORKLUND. I might comment on that. First, as you know, we supported the measure that specifies purchaser credit. When we talk about the future we are concerned about that too. When the Forest Service indicates one third of our timber sales may be deficit it is a real and possible issue to us.

Mr. KUEHNE. We certainly do, as included in the hearing record, we support the legislation and our name is on the front as submitted by us, along with our industry associations and other associations in the West.

The CHAIRMAN. I believe if we are going to find any kind of legislative solution, and that appears to be where it has to be, and I agree that whether we like it or not, it will have to have some elements in it that appeal to each of the segments of the industry. There is no way a single segment of industry can win a legislative battle by itself.

If people are not friendly to the industry, are permitted to play you off against each other you are all going to lose. It is a simple equation, it seems to me. I just hope they are not successful in doing that. I don't say that because I happen to come from a region that will be dependent upon that. It might be perceived by that that some will lose in that fight. I think the whole industry will lose.

Mr. KUEHNE. I can assure you when we meet with Senators and Congressmen from our State in Washington, we emphasize to them our support for purchaser defective credit and why it is equitable.

The CHAIRMAN. There are a number of members of industry that operate, not only in the West but the inland and coastal regions as well, and also operate in the South and I hope they can persuade their friends who do not operate in the West the balance is not necessarily an adverse one.

I suspect if we avoid having the southern producers come in in opposition, if we are going to avoid that, we will have to agree to a tap on production and I think that is an essential part of that balance again.

Mr. KUEHNE. I would like to respond to that, if I may, Senator, for a minute. We certainly agree that one region in the country should not get an advantage over another region in the country as a result of legislation passed here. I think the clearest way of assuring that that does not occur is to look at the market share and I believe we can develop a system with the statistics that are available to monitor, in fact, where lumber is being shipped and if one region of the country is gaining advantage over another.

If, for example, the southerners are concerned that Western lumber is coming in there and grabbing a higher percentage than the historical level of the market share in the South, the numbers on lumber shipments are available and maybe there could be something in the legislation that would trigger certain actions, if in fact, market shares do change.

And maybe that would be the most effective cap, if you will, or equitable means to handle it rather than the more arbitrary this level or that level of sales.

The CHAIRMAN. Thank you very much. I am not sure I know exactly how that can be worked out. I think there has got to be something in there somewhere that can meet their requirements, allay their fears against a flood of low cost timber that will disrupt their market share.

I think we might as well say that it would be a pretty easy thing for people in the southeastern United States, Senators and Representatives from that area to oppose any kind of a legislative solution here, because it satisfies both their local operator and the environmental organizations that focus on the problems within the West and ignores those that are somewhat dissimilar in the South.

That is something that is going to have to be overcome, it seems to me. The negatives are a lot easier to sell around here than the positive solutions.

Thank you all very much. I appreciate your testimony and I appreciate the fact that you have been sitting here for hours waiting for the chance.

With that, we will move to Peter Kirby.

STATEMENT OF PETER KIRBY, COORDINATOR, FOREST MANAGEMENT PROGRAM, THE WILDERNESS SOCIETY

Mr. KIRBY. Thank you, Mr. Chairman. I will try to be as succinct as I can. My name is Peter Kirby. I am the coordinator of the forest management program at the Wilderness Society.

The conservation community is very sensitive to the economic problems besetting the Northwest because of high interest rates, a collapsing timber industry, and record unemployment. We want to help shape measures that lessen the human and economic impacts of this recession and bring about eventual economic recovery.

Our most constructive role in this current debate will be to suggest ways that legislation can be improved environmentally and economically. If these improvements are made there can be greater public consensus in support of a bill and a greater likelihood that needed relief can be afforded the Northwest.

Our position is that we strongly support relief legislation that is parallel to provide appropriate relief for the timber companies and communities that are solely depressed by the sharp drop, as we will explain. We have no objection in principle to legislation allowing for termination of existing contracts, provided that there are needed safeguards, insurance that the relief is economically sound and environmentally sound.

Let me make three points, Mr. Chairman, about improvements in your proposal and ours. First, we suggest there should be a forest-by-forest moratorium on new timber sales in roadless areas until terminated sales in roaded areas are reoffered for sale. According to the latest estimates, more than 10 billion board feet are now under contract in Oregon and Washington at prices that make the sales unprofitable to harvest.

When these contracts are terminated it makes strong economic and environmental sense that they should be reoffered first before brand new sales are made available. From an economic point of view, the terminated sales should be reoffered first because of the obvious cost-savings to the Government. These sales have already received environmental study, timber volumes, and sale designs have already been surveyed and personnel have already administered the sale at least once.

From an environmental point of view, the reoffering of terminated sales in roaded areas will allow for a reduction in road construction mileage needed in the next few years. In addition, roadless areas designated nonwilderness in RARE II would not need to be entered until the terminated sales are all reoffered. This outcome would benefit all parties conferring on wilderness legislation in the Northwest, including the congressional delegations. They would gain additional time for careful study of areas under consideration.

Second, Mr. Chairman, contract terminations should be the exclusive remedy for uneconomic contracts, not further contract extensions, adjustments, or price reductions. Contract termination appears to us to be the only remedy that is needed to address the current crisis. If uneconomic contracts are terminated, then the companies now holding them will not face default. And if the contracts are then reoffered, they will be sold at current market prices, allowing for work and employment to resume.

Extensions, adjustments, and price reductions are not needed at all if termination authority is granted and used. Moreover, these additional provisions have the effect of rewarding the speculators who bid up the prices of contracts in the late 1970's.

With extensions, adjustments, or price reductions, these speculative bidders get to keep their contracts and profit from them. It is not in the public interest to do so.

Lastly, Mr. Chairman, let me address a point that has received much attention in the last 2 hours, that of road purchaser credits. Conservation groups strongly oppose any uneconomic and environmentally damaging road credit provisions being added to this bill.

Preintroduction drafts of relief legislation contained a variety of provisions extending virtually limited benefits to timber companies for construction of roads to service timber sales. Under current law, the Federal Government reimburses timber companies for the costs of building timber sale roads, but not for road costs beyond the value of the timber.

Earlier drafts of this relief legislation would have changed the law to give timber contractors credit for all road construction costs, regardless of the value of the timber.

Mr. Chairman, before going into some of our particular objections, I would like to say conservation groups have worked with the timber industry over the last 4 years on the issue of road standards. We have many of the same concerns that the timber industry has about excessively built roads, both the cost of companies involved in building them and the environmental damage from over building roads.

In fact, I am in a discussion group that meets with the timber industry on a regular basis and one of the subjects we address is this very question. We are willing to continue to work with the timber industry on the road standards.

Here are our objections. The change in law would allow for an undisguised and uneconomic raids on the Federal Treasury by the timber companies. Under present law, if a sale has 50,000 dollars' worth of timber, the company gets no more than 50,000 dollars' in reimbursement for road costs. If the law were changed as proposed in earlier drafts, the company could be reimbursed for $150,000, let us say, for costs in reaching this 50,000 dollars' worth of timber.

The Treasury would in effect be paying timber companies to take Federal timber for free. In our hypothetical case there would be no receipts, or only nominal amounts, going to the Treasury for the 50,000 dollars' worth of timber and $100,000 in revenues being taken from the Treasury because of the road construction subsidy.

Even though road credits effectively take money from the Treasury, they are not treated as appropriations by congressional appropriations committees. Hence, the change in the law to allow all road costs to be reimbursed would allow for a major and unscrutinized drain on the Treasury.

Let me respond, finally, to points Mr. Dennison raised in his testimony. He said we should be assured of our future damage to the environment on road building credits, because there was a provision in the National Forest Management Act that would prohibit uneconomic road building. That is how we read the National Forest Management Act, but that is not how the current administration reads that section of the National Forest Management Act. And its interpretation of that provision will allow it to go into as many lands as is needed to achieve the timber quotas set in Washington, D.C., for individual forests or whatever.

So we do not have confidence in this section of the law.

He said they would be carefully developed over 3 years with great public comment to protect all forest resources and that is absolutely correct and those rules, Mr. Chairman, were finalized in 1979, but major changes have been proposed by Mr. Crowell to weaken the protections we think are needed for wildlife and watersheds.

Until some review by the Appropriation Committee on road credits and until there are strict environmental protection standards written into the forest plans, we cannot accept changes in the purchaser road credit statement.

The CHAIRMAN. Thank you for your statement, although I may disagree with some of your conclusions. Let me correct the record, I think it would be correct to say that the appropriations process does purchase credits. That specifically is carried in the appropriations process and in order that we not get that confused with the question of budgetary balance or imbalance, we specifically provided that it be taken off budget, but that does not mean we don't look at it.

I know a lot of people don't think we look at it, but I assure you we do.

Mr. KIRBY. That is a welcome assurance, because it is overbudget, it is not the kind of restraint of numbers that could run off.

The CHAIRMAN. I think certainly the restraint of budget balance is different. To say it is not considered in the appropriation process I think overstates what the current situation is, because we do consider it just as we consider the expenditures for the strategic petroleum reserve and those are over-budget, but subject to very extensive debate between the Congress and the administration and the appropriation process itself. So it does change the rule, there is no question on that. But it is not simply ignored in the process.

Mr. KIRBY. That is welcome news.

The CHAIRMAN. I understand your concern that the rules may be changed but you are in effecting asking us that because the administration may have in mind some changes on the rules as to what is good economic practice that we in effect do nothing, while that is being thought out. I can understand from your perspective that that may be a desirable result, but there are people involved that are affected by doing nothing.

There are many dependent communities and that is a consideration we have to keep in mind here as well.

I think your suggestion that those sales which are terminated be first reoffered has some merit and we ought to look at that very carefully again, as you suggest in your testimony on a forest-by-forest basis. That will allow us to look at the impacts without shifting the impact from one region to another region.

I suspect that is the reason you suggest it be done on a forest-by-forest basis.

Mr. KIRBY. Yes, sir.

The CHAIRMAN. I think that is constructive and we will look at it carefully. Thank you for your testimony today and thank you for your patience.

Mr. KIRBY. I admire your patience, sir.

The CHAIRMAN. Thank you.

I understand Mr. Harry Williams is unable to be here, but Mr. Clark Cosse is able to present testimony on his behalf, in his absence and he will appear.

We will hear from G. Robin Swift, Jr., president, Swift Lumber Co., Atmore, Ala.

Mr. COSSE. We have another southerner that was mentioned and we have testified before as a panel. We thought he might want to come up, Mr. Chairman. That is Mr. Harrison.

The CHAIRMAN. Mr. Harrison, I don't have your name on the list.

Mr. HARRISON. I understand it has been added, Senator.

STATEMENT OF CLARK R. COSSE, SOUTHERN FOREST PRODUCTS ASSOCIATION, ON BEHALF OF HARRY WILLIAMS, PRESIDENT, SOUTHERN FOREST PRODUCTS ASSOCIATION, CLEVELAND, TEX.

Mr. COSSE. Thank you, Mr. Chairman. My name is Clark R. Cosse and I am speaking on behalf of Harry Williams.

The member companies of our association have operations in Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North and South Carolina, Oklahoma, Tennessee, Texas, and Virginia. Their mills account for almost three-fourths of the total southern pine lumber production. Our members have been gravely hurt by the collapse of the housing market which has plunged our industry into its worst crisis since the Great Depression of the 1930's.

Southern pine lumber production and shipments have been running 30 percent below normal and the unemployment rate at our member mills has risen above one-third. We are aware, of course, that our plight in the marketplace is shared by western lumbermen.

So it is with an instinct for self-preservation as well as our desire for recovery of the timber economy in all producing regions that we look with sympathy on the quest of the western operators for legislative relief from their contractual problems.

However, we cannot support efforts to provide for the comfortable recovery for our western friends at the expense of the industry and jobs so vital to our region. We are aware that with more than one-third of our member mills closed down we can ill afford any further contractions of an already depressed lumber market. Therefore, we are determined that in our efforts to help solve the western contractual problem, we do nothing that will compromise our own situation.

On January 28 of this year, our executive committee adopted a resolution approving extensions of Federal timber contracts but opposing terminations and rollbacks. Then, as the magnitude of the crisis in the West became increasingly obvious, our position changed. At our midyear meeting in early June, we voted to rescind the earlier resolution on termination and to actively support relief legislation, provided that it contain certain stipulations and provisions.

The results of a July 16 written poll of the members of our executive committee indicated their support for relief legislation provided that it include a cap on Forest Service sales in region 6 plus other safeguards.

The cap we propose is 4.1 billion board feet annually in fiscal years 1983 and 1984. Also, we would approve an escape clause providing that if the Secretary of Agriculture determine that the demand for forest products increases, as indicated by housing starts, on an annualized basis to reach or exceed 1.6 million units for 3 consecutive months, the Secretary shall revert to a normal sales program.

Additionally, we can support no legislation allowing greater than 40-percent termination of a Federal timber contract. Wholesale termination would grant sanctuary to speculators and encourage such operations at the expense of legitimate timber interests.

Termination and caps notwithstanding, we feel that the most acceptable and least controversial manner in which to solve the timber sales crises is addressed in S. 2818, which would authorize the Secretaries of Agriculture and Interior to adjust the termination dates of any contract entered into before January 1, 1982, for up to 5 years without penalty.

Such a contract term adjustment would provide time and allow for markets to return to more reasonable levels. It would allow operators to mix new and old sales thereby allowing them an opportunity to achieve a realistic price structure without complete reliance on timber that can't be manufactured and sold at a profit in today's depressed market. Contract term adjustment would also require some accountability from those who bid and thereby bound themselves, a better lesson than that which would be taught by wholesale termination.

Contract term adjustments would also delay but not reduce greatly the large sums due the Federal Government for the Forest Service sales.

Forest Service statistics indicate that unless a cap is imposed on region 6 sales, the problem we are here to address today will not be solved but further aggravated. In 1981, the volume of national forest timber under contract but not harvested exceeded 32 billion board feet, of which more than 16 billion feet was in region 6. The total estimated for 1982 is over 33 billion feet.

Just why is this unharvested backlog so huge is evident from other figures for region 6. In 1979, slightly more than 5 billion board feet were sold in the region and about 4½ billion feet were harvested. But thereafter the divergency grows. For 1980, the totals were slightly more than 5 billion feet in sales and 3½ billion feet in harvests.

In 1981, there were 5½ billion feet in sales and only 3 billion feet in harvests. In 1982, the gap is believed to be even wider.

In addition to our insistence on a cap and 40-percent maximum on terminations which would eliminate the danger of a market glut in a period of low demand, we are also extremely concerned about proposals that purchasers' credits for road building and other work in connection with national forest timber sales be allowed to be shifted from one national forest region to another. We fear that could open a can of worms.

For example, an operator with contracts in region 6 but who also has operations in the South might be able to shift his credit from the West to a national forest in region 8 and get his southern timber, in effect, without investment.

We would prefer that transfer of credits be limited to the region and national forest of origin and to sales made prior to January 1, 1982.

We also believe that any relief legislation should provide some mechanism whereby terminated and/or defaulted timber is returned to the market in an orderly fashion and in amounts that will not increase the levels of the existing sales program in a depressed market.

While we will support up to 40 percent terminations if proper safeguards are included in the legislation, we also are convinced that some performance on the part of the operator should be required on his remaining contracts.

Since Senator Hatfield's bill does not contain a region 6 sales cap or other safeguards we have proposed, we cannot support the bill in its present form. We have also noted that the language of the bill provides for price modifications.

While we have rescinded our original opposition to terminations, we remained unalterably opposed to price rollbacks because of the loss of money that would involve for the Federal Government at a time when fiscal responsibility is all important and because it would be unfair to other lumber producers not benefiting from rollbacks.

Moreover, there are disparities in sales contracts between Forest Service regions which should be addressed by the legislation. Southern operators bid under a transaction evidence appraisal system that does not respond favorably in falling markets. The more responsive residual value system used in the west has resulted in lower timber prices in the West than those other producers may pay in the South.

I sincerely hope these problems can be worked out in the course of developing the legislation in a way that will create genuine consensus within the Congress, the administration, and the industry as to what will best serve the public interest in this urgent matter.

Thank you.

The **Chairman**. Thank you. I appreciate your testimony.

Mr. Swift.

STATEMENT OF G. ROBIN SWIFT, JR., PRESIDENT, SWIFT LUMBER CO., ATMORE, ALA.

Mr. **Swift**. Mr. Chairman, my name is Robin Swift, Jr. I am president of a family owned independent lumber operation in Atmore, Ala. My company employs about a hundred people and is probably typical of hundreds of other independent southern lumber manufacturers.

In its 60 years of existence, my company has never bought a national forest sale. We own very little fee land, so nearly all of our raw materials are purchased from individuals, corporations, and State governments, whose sales to us are short term, paid for in cash and nonterminable. So, obviously, we don't have a direct ax to grind on the issue which is the subject of these hearings.

What we do have is a stake in the marketplace, which at this particular point in history is severely depressed and which has forced hundreds of southern sawmills to close down or curtail their operations. While I respect Senator Hatfield's efforts to resolve the dilemma facing a large and important segment of the Nation's lumber industry, I am also concerned with the possible adverse effects of this legislation on my own company and region.

S. 2805 would authorize modifications in existing Federal timber contracts through terminations, extensions, and modifications of purchase price. I would like to comment on these in reverse order.

First, price modifications or rollbacks, I am totally opposed to this provision. It makes a mockery of the entire bid system. It offers price breaks and competitive advantages to Federal timber contract holders that are not available to the rest of us. It dips into the Treasury at a time when a major effort is being made to balance the budget.

Second, extensions, I have no great objection to extensions of inoperable contracts if some provision is made in the legislation to assure that Forest Service sales policy is changed so as not to cause great harm to those of us who operate on private timber. I will expand on this in the next section of my testimony.

Third, terminations, this is the one that causes most of us the most trouble. I am opposed to terminations as a matter of principle. A contract is a contract and those of us who do not buy Government timber will not be afforded the luxury of terminations of any high priced private contracts which we hold.

However, since this subcommittee and the Congress as a whole may pass a termination provision, I would like to offer a few comments on how the marketing of this terminated timber and Forest Service timber in general affects my operation.

To put the problem in perspective, let us consider what has been going on in Forest Service region 6, which includes Washington and Oregon. In the 1975 through 1979 period, which were strong years for homebuilding, an average of 4.2 billion feet of timber per year were harvested in region 6.

In the years 1980 and 1981, the average was only 3.4 billion feet. Forest Service sales in the meanwhile have been running at much higher annual rates, the 1981 sales program totaled 5.5 billion feet. As a result, the volume of sold but uncut inventory in that region rose from 12.3 billion feet in 1975 to 16.3 billion feet in 1981. Now, it is estimated that the total could go higher than 18 billion feet by the end of fiscal year 1982, as the result of selling more than is cut.

Meanwhile, however, the Forest Service is continuing with a plan to put 5.4 billion feet on the market in fiscal year 1983 in region 6, irrespective of the fact that only about a 3.5-billion-foot market exists. This not only recreates the uncut inventory problem, but forcing 5.5 billion feet on a 3.5-billion-foot market can only result in dramatically lower prices for Federal timber.

In fact, it has already happened in region 6. Bid prices have dropped from an average of almost $307 per 1,000 feet in calendar year 1980 to just over $62 per 1,000 feet in July 1982. This kind of price drop in one area of the country where timber is owned largely by the Government and where Government sales dominate the market can only result in a tremendous competitive disadvantage to those of us who operate on private timber in areas where Government sales do not dominate. These Government sales become a subsidy to my competitors.

Forest Service timber should not dominate the market nationwide. It should certainly represent a share of that market and surely there should be enough flexibility in the sales program to allow for high volumes in good housing years and lower volumes when the market is bad.

The kind of threat posed here for independent lumber companies in the South that run on private timber is really no different from the intolerable situation that has already been created by the massive invasion of U.S. markets by government subsidized Canadian lumber.

The Southern Pine producing region is a long way from Canada. Yet, 2 years ago almost 60 percent of the lumber consumed in Georgia and Florida came from Canada. The ratios were 40 percent in Virginia, 39 percent in North Carolina, and 37 percent in Tennessee.

Since then, the flooding of our home markets by Canadian lumber made from cheap government stumpage has continued unabated. What it means is that we have been getting an even smaller share of a declining lumber market. If, on top of that, we should be faced in the South with the additional threat of lumber from other parts of the United States made from Federal timber, whose low prices are in effect subsidized, I don't see how very many companies like mine can survive.

Mr. Chairman, we have already done everything we know how to do in our own company to insure our survival. What we don't need now is Government action that makes that survival less likely.

Thank you for the opportunity to testify.

The CHAIRMAN. Thank you.

Mr. Harrison.

STATEMENT OF W. N. HARRISON, VICE PRESIDENT, MILLWAY LUMBER CO., BRADLEY, S.C., REPRESENTING SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION, FOREST PARK, GA.

Mr. HARRISON. Thank you, Mr. Chairman. My name is Bill Harrison. I am vice president of Southeastern Manufacturers Association. We operate a sawmill in Georgia and in Piedmont, S.C. We employ about 55 people plus a few others in the woods.

We buy timber from the national forest that surrounds us. That represents about 15 percent of our production. I am here to represent the Southeastern Manufacturers Association, which consists of 396 members located from Virginia to Texas. I am accompanied by Bob Davis, who is here in the room who is the staff forester for SEMA.

Bob and I also belong to the national and Federal purchasers committee sponsored by NFPA and I have served as an association representative to that committee for a number of years. I have been involved with a number of discussions on this problem, since early this year.

We have filed a statement that has some specific comments in it and I might say, Senator, that after you have listened to 2 days of testimony by people and a lot of those people you know quite well, there are some things you would change in your testimony if you were writing it again.

We wrote it 2 or 4 days ago. I am not going to read that statement.

I would like to make a comment about why we southerners are here and if the Senator has any questions about the southern viewpoints, we would be glad to try to answer them. We are here, Mr. Davis and I, to find or help develop, if we can, a course of action which can be supported by the southern lumber industry that will help to solve the immediately disastrous situation we see existing in the industry in the Northwest. We are aware of the details and background of that situation in the Northwest.

We have personal friends who are faced with almost impossible problems in that area. Although the industries in the Northwest are our competitors in many markets, we are friendly and firmly committed to the principle that a healthy industry in the Northwest as in other parts of the country is in our best interest, and more importantly, in the best interest of the United States of America.

In the Southeast, we are also faced with a serious recession in the lumber industry. At our mill we have had partial shutdowns during the past 12 months in order to reduce production. Our company sustained a rather heavy financial loss in the fiscal year ending March 31, 1982.

I believe a majority of the southern lumber industries would like to be supportive of legislation for the relief of the industry in the Northwest, provided, as my colleagues have already said, that it does not involve simply shifting the problem to the Southeast.

Although I believe that none of the members of the northwestern industry and their supporters intend this to happen, it is very difficult and actually impossible to guarantee this will not be a part of the outcome. It is my major responsibility as representative of our members to prevent that unfortunate situation from occurring to the extent that I can.

Considering the inelastic market we are facing, I believe it is a fact of life that if we revive the industry in one area, we will tend to further depress it in another area. We hope that condition will not last too much longer. As representative of a part of the southern industry, I need to be able to go home with a plan for a solution to these problems that can be defended before a skeptical and sometimes hostile audience. That is what we will be faced with when we go home and we would like to be able to go back with something that we can say we urge your support of this program.

That is where we are, Senator. Thank you.

The CHAIRMAN. I thank you, each of you for your testimony and I think it has been a valuable addition to the record as we wrestle with the balances that you urge on us and that we must try to find if we are going to be successful in this legislation.

I will not ask you to do it now, but for the record I would ask you to submit and educate me of, in your statement you refer to the fact that southern operators bid under the transaction appraisal system and contrast that to the residual value system and I wonder if you could provide me with an explanation of what that difference is.

Mr. COSSE. I would be glad to.

The CHAIRMAN. And each of you in your own way has pointed to the alarming question and that is penetration of the U.S. market by Canadian products. That will correct itself over a long period of time, but there may be a lot of our people not in business.

Mr. HARRISON. I don't believe it will correct itself without some action and there are courses being pursued in that action now and we are part of pursuing that effort, my company and association.

The CHAIRMAN. I share that concern. They enjoy a different bidding system and appraisal system than we have and they benefit a great deal on the falling markets. We have a problem to address and I pledge to you our assistance as far as we can assist in trying to reach some kind of a solution to that problem that will permit us to continue business in our country as well as recognize their concerns.

I appreciate your testimony and while we are not in a position, Mr. Harrison, to tell you that now we have a solution to go home with, I wish we did, and I hope we will get to that point.

Thank you all for your testimony.

The last on my list, but not least, is John Davenport, independent consultant, public timber issues, Portland, Oreg.

STATEMENT OF JOHN A. DAVENPORT, INDEPENDENT FOREST CONSULTANT, PORTLAND, OREG.

Mr. **Davenport**. Mr. Chairman, I am John Davenport and I am an independent forest consultant located in Portland, Oreg. For the last 1½ years, I have spent about 80 percent of my time looking into the problem of timber under contract and what solutions might possibly be arrived at and how to handle this situation.

Before I begin, there is a typographical error on the last page, the very last page, after the word available for and the word loss should be logs.

I would like to make a couple of short comments about some of the testimony here today. The county suggested that the farmer funds be forfeited. That would result in approximately $1 billion and there would be no bonding companies left if that were the penalty. Mr. Crowell indicated that they would work out a system whereby people could pay interest on timber held until it could be harvested. A quick check of 64 companies in western Oregon and northern California shows the total obligation is $3.8 billion on those 64 companies alone and I would estimate the interest payments on timber that would be turned back would amount to $1 billion a year. Obviously, that kind of a solution is not going to work.

And I had the impression after listening to Mr. Crowell that since the Government still expects to get the funds from these contracts that they have become as big a speculator as the bidders who drove it up there. I don't believe it is going to occur in any way.

There are three bills, one of them, which has not been introduced. They address the problem of relief for the operators. It is obvious to me success hinges on correcting conditions in the past that caused the current situation and the real issue, therefore, in my opinion is the bidding excesses that occur.

The 40 percent bill is basically unfair because it leaves many operators with contracts at price levels which still cannot be operated.

Senate bill 2805 is a generalized relief package to allow companies showing hardship to have their bid prices lowered. Such a process would create economic chaos in the industry. The Government would be better off to cancel all old contracts and negotiate new ones. No one knows how this hardship showing would be made.

Senate bill 2818 simply grants a free 5-year extension. Such a breather merely postpones the crisis. Furthermore, and most importantly, the proposed bills do not even attempt to correct the bidding practices that led to the current situation.

They neither require a substantial prepayment, which would help support local governments and reimburse the Federal Government for its preparation of sales, nor demand a quick and orderly removal of the timber bought.

In my opinion, it seems that the only fair solution for granting contract relief is to insist that any operator requesting relief must submit to the cancellation of all his contracts. Economic survival will compel most contractors to request total relief.

Therefore, any bill must direct Government agencies involved in the selling of timber to avoid a repetition of the current situation by adopting a reasonable formula for the resale of timber, not based upon continuing inflation, nor the outmoded theory that the highest bid price brings the greatest revenue.

It must be clear that a high bid price which cannot be paid at all is less attractive than a lower bid price which is economically possible to allow the contractor to fulfill.

Proposed legislation might provide a breather for depressed lumber and plywood companies. But there is more at stake than the welfare of individual companies. This legislation will not result in responsible and regular harvest of some timber and therefore would not necessarily demand that the relieved parties hire workers, develop alternative markets or pay the revenues so badly needed by local and Federal governments.

Any legislation must address all aspects of the present depression in the lumber and plywood industry and the communities they affect. To be expedient, which may now be the only way to save much of the wood products industry, all contracts could be forgiven and all resold to those operators willing to live up to the new contract conditions.

I specify in some detail certain requirements which should be established in any bill in the addenda following this statement.

There is no point in placing blame in the present dilemma on either the forest products industry or the government. Many laws and governmental policies have led to the current situation. It is essential to solve, if possible, or at least address, the situation so that resale of canceled contracts in addition to normal timber sales are handled in a rational manner.

Any bill should protect the historical share of Federal timber without jeopardizing other timber producing regions of the country.

Any proposed legislation must apply to the sensible rehabilitation of not only the forest products companies but the people and governments who depend upon the orderly functioning and subsequent revenue of a healthy industry.

Times have changed, instead of a shortage of timber, there is now a surplus. It is time to recognize the need to adopt a more realistic timber sale policy, which encourages responsible bidding and timber harvest practices.

A final comment, for years and years everybody has been concerned that we are going to run out of trees; overkill the forest and we will run out of trees. Senator, I think the trees have won.

[The prepared statement of Mr. Davenport follows:]

STATEMENT OF JOHN A. DAVENPORT

Mr. Chairman, members of the Committee, I am John A. Davenport, Independent Forest Consultant located in Portland, Oregon.

The lumber industry of the United States is beset with many problems. The collapse of the homebuilding industry is, of course, the major one. Canadian lumber imports is another. Another separate problem is the enormous volume of high priced timber under contract in Forest Service Regions 5 and 6 (California, Oregon and Washington). These bills seek to address that problem.

Excessive bidding variously described as speculative, cutthroat vengence, watertable or inflationary occurred primarily during the years 1979, 1980 and 1981. Operators, fearing timber shortages because of the projected high level of housing demands for the 80's together with environmental constraints, bid on timber at bid prices bearing no relation to then current markets. Forest Service timber sale policy encouraged these bidding practices by requiring little or no down payment and allowing 4 to 6 or more years sale length. One timber sale in the Siskiyou National Forest in Oregon was bid to $1,000 per thousand board feet for 12.5 million board feet of Douglas Fir Timber which was appraised at $200.00. In my opinion even if housing roars back to 1.5 million annual starts which is unlikely in the immediate future, that timber sale will still not be operable.

Therefore, I believe that Congress will have to eventually grant some form of relief. Enforcement of the contracts now in existence and collection of damages for defaults would be an impossible task. The Forest Service would have to resell all contracts immediately and then hire more lawyers than foresters to litigate the lawsuits over each contract. Even if the government should win its cases, it could not collect damages, since most of the companies declaring default are facing bankruptcy now. Obviously, no revenue can be derived from bankrupt companies.

There are three bills under discussion and two have been introduced. The one not introduced is the so-called 40 percent termination bill. Examination of timber under contract company by company and contract by contract shows that bill would not work. The relief falls unevenly. Even getting rid of 40 percent of the volume leaves many operators with contracts at price levels which still cannot be operated.

S. 2805 is a generalized relief package to allow companies showing hardship to have their bid prices lowered. Such a process would create economic chaos in the industry. The government would be better off to cancel all old contracts and negotiate new ones. No one knows how this "hardship" showing would be made.

S. 2818 simply grants a free five year extension. Such a breather merely postpones the crisis. Furthermore, and most importantly, the proposed bills don't even attempt to correct the bidding practices that led to the current situation. They neither require a substantial prepayment (which would help support local governments and reimburse the federal government for its preparation of sales), nor demand a quick and orderly removal of the timber bought.

In my opinion, its seems that the only fair solution for granting contract relief is to insist that any operator requesting relief must submit to the cancellation of all his contracts. Economic survival will compel most contractors to request total relief. Therefore, any bill must direct government agencies involved in the selling of timber to avoid a repetition of the current situation by adopting a reasonable formula for the resale of timber—not based upon continuing inflation, nor the outmoded theory that the highest bid price brings the greatest revenue. It must be clear that a high bid price which cannot be paid at all is less attractive than a lower bid price which is economically possible to allow the contractor to fulfill.

Proposed legislation might provide a breather for depressed lumber and plywood companies. But there is more at stake than the welfare of individual companies. This legislation will not result in responsible and regular harvest of some timber, and therefore would not necessarily demand that the relieved parties hire workers, develop alternative markets, or pay the revenues so badly needed by local and federal governments.

Any legislation must address all aspects of the present depression in the lumber and plywood industry, and the communities they affect. To be expedient (which may now be the only way to save much of the wood products industry), all contracts could be forgiven—and all resold to those operators willing to live up to the new contract conditions. I specify in some detail certain requirements which should be established in any bill in the addenda following this statement.

There is no point in placing blame in the present dilemma on either the forest products industry or the government. Many laws and government policies have led to the current situation. It is essential to solve (if possible), or at least address, the situation so that resale of cancelled contracts in addition to normal timber sales are handled in a rational manner. Any bill should protect the historical share of federal timber without jeopardizing other timber producing regions of the country.

Any proposed legislation must apply to the sensible rehabilitation of not only the forest products companies, but the people and governments who depend upon the orderly functioning and subsequent revenue of a healthy industry. Times have changed—instead of a shortage of timber, there is now a surplus. It is time to recognize the need to adopt a more realistic timber sale policy, which encourages responsible bidding and timber harvest practices.

SPECIFIED REQUIREMENTS

1. An operator requesting termination of any contract entered into prior to 1 January 1982 must have all contracts entered into prior to 1 January 1982 terminated. This creates equity for all because the overbidder will not have his cake and eat it too. He should not be allowed to keep some contracts and get rid of others at his option.
2. A substantial down payment on all new contracts must be made in cash (10 to 20 percent).
3. Adoption of a timber sale "cap" which maintains the historic federal timber share of the national market over the last 10 years and spreads the cap proportionately over all regions.
4. Adoption of an enforceable and realistic termination policy.
5. A more equitable road building payment policy. Elimination of the current purchaser credit road payment system. Cash payments for completed roads or credits against timber harvested should be the Government's method of paying for permanent roads. Furthermore, operators who have built roads in the last five years and have unearned credits should be reimbursed. As a landowner, the government should pay for the permanent roads constructed by operators. These roads become vital to the management of the national forest system and provide access for the public.
6. No-bid sales should be declared surplus, made available for export of logs, and rebid.

The CHAIRMAN. Let me ask a question with respect to the trees, I am not sure who won or lost. Do you believe that the market for housing is going to remain permanently at or below 1 million housing starts per year?

Mr. DAVENPORT. I do.

The CHAIRMAN. You think it is not going to recover above that level?

Mr. DAVENPORT. Not in the foreseeable future.

The CHAIRMAN. I guess if I believed that I could share more of your conclusions. My concern is this, we are debating now on the floor of the Senate the issue of abortion and for a lot of people that means population control, birth control. Birth rates were tripling downward in the United States to the point where we have seen population stability reached.

By the end of this century we will have a population in this country somewhere around 3 billion people. Recent trends have reversed. The birth rate is beginning to climb slightly. We still have many people underhoused according to tests, as well as the formation of the families that are now underway who will in turn demand more housing.

I find it difficult to conceive of the condition in which housing starts will remain at, what are to me, at least, abnormally low levels. We have not had housing starts at this level for a long, long while.

Mr. DAVENPORT. I agree. I based my judgment or my opinion at least on the fact that I drove out to the airport the other day and it was a 3-mile drive and I counted 39 houses for sale and that is just along the city streets.

The **Chairman**. Not because of abandonment; nobody can afford them with interest rates and unemployment the way it is. The staff points out to me, and I think it is worth knowing, that earlier today we completed action on an immigration bill and that immigration bill, in my judgment, is going to have almost no effect on slowing down the rate of illegal immigrations.

I think, as a matter of fact, it will have no effect at all, because it is so toothless, and it infuriates me that we have not faced up to the fact that we have on our southern border a neighbor with a population that doubles every 6 years.

Mr. **Davenport**. I can only give you my opinion from my knowledge, in the building industry, the builders I talk to, the situations that occur in California. For example, in the last year, the California State Legislature tried to pass a housing assistant bill and it ended up in a political scandal.

In the State of California, which is the principal market for lumber from Oregon and California, it takes 1½ years to get a housing permit cleared and they have not gotten any housing permits applied for at the present time.

All of those factors will delay any rapid recovery, in my opinion. I think rapid recovery may well be delayed regardless of when it occurs, whether it is rapid or more prolonged, we will have more people to house.

The **Chairman**. While our current trends are different from what they were 5 or 6 years ago, that does not mean they will be permanent.

Mr. **Davenport**. Let me frame my answer in this manner, considering the problem of the contracts we have now, I don't think any housing boom will come along to take care of that in the next 3 or 4 years. Eventually, you are right, there will be an increase in housing. I don't see it happening in the next 3 or 4 years.

Our estimate 10 years ago or more was we needed 12 million new housing units in this country. That is where we got into this mess; people expected it to happen.

The **Chairman**. We still have the people.

I misspoke myself, I said the population of Mexico doubles every 6 years, it takes 12 years not 6. It does double in 12 years and it doubled in the last 12 from 30 to 60 million and in another 12, without migration or some other changes, it will double again.

If we look at recent counts of financial and political problems in that country, there can be a great degree of social and political instability south of the border. We could get 10 million people across the border in one weekend. They are going to live somewhere.

I don't think we have come to the end of the resource problem. That is a broader question than just housing or timber housing. I think if I view things correctly the Canadians may be benefiting from their current conditions.

I have flown over western Canada and I see they are moving farther north all of the time. As they move farther north, cutting off the face, they are getting into an area where reproduction rates are lower than the South and they may not be able to sustain that.

Mr. **Davenport**. There is no question that they have serious problems in that area.

The **Chairman**. If that is the case, even if we cannot by other means rectify the imbalance in this market between the Canadian producers and U.S. producers, over the period of time that will get rectified. As the world population continues to grow, I think there is going to be more pressure upon our resources rather than less and I guess that is what I am saying.

I cannot find myself very comfortably accepting the idea that we have a permanent surplus of timber.

Mr. **Davenport**. I don't know whether we have a current surplus. Clearly, 50 years from now things will be different.

The **Chairman**. I appreciate your testimony and I wish there were some solutions as simple as some you outline. They are good solutions. The problem is we cannot get them passed. And they are not very simple and they are not solutions unless you can get them passed.

For instance, the building of roads, we have been trying for years to get enough money to stay ahead of that in the appropriations process and I would agree with you totally, we ought to do it, but I have not found a way yet to get it done.

Mr. **Davenport**. Let me just advance this idea. What I am saying is no different than the transfer purchaser credit; the Treasury gets the same amount of money.

The **Chairman**. The reason we have purchaser road credits at all is because we have been unable to get enough money appropriated.

Mr. **Davenport**. I don't think so, Senator. The purchaser credit system is the amortization system, which allows the operator to regain some of his money, plus cheaper timber early in the contract. If the system I advocate were adopted the appraised price of timber would be higher than the value of the road and you would not have any deficit sales or very few deficit sales.

In other words, the Treasury would get its money back in a different way than it does now. I know it is a complex subject. I claim what I am proposing would make no difference in money. Eventually there would be a delay of time, a carryover period.

The **Chairman**. You are assuming that equalizer, the Wilderness Society that testified earlier, will allow the roads to be built.

Mr. **Davenport**. I am suggesting that type of system would give the Congress a way to control the amount of money to spend for roads. The Congress could say to the Forest Service, you sell the timber but this is all of the money we will have for roads, in which case they would build roads to fit the budget.

The **Chairman**. We do that now, we control both ends of it.

Mr. **Davenport**. This way highlights it. I think the Sierra Club would approve of that idea. He was saying everything is hidden and we cannot find it.

The **Chairman**. They are not misled. They know where every foot of road is. They are opposed to all of it.

Thank you very much. I appreciate your suggestions and we will take a careful look at them. And if there are ways in which we can implement some changes, we will try to implement them. It will take all of the help we can get.

Thank you very much for your thoughtful testimony. I don't believe there are any further witnesses.

The committee stands adjourned, subject to the call of the Chair.

[Whereupon, at 8:15 p.m., the committee was adjourned, subject to the call of the Chair.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

WILLIAM L. FLOYD
DISTRICT 31
BONNEVILLE, TETON
AND MADISON COUNTIES

HOME ADDRESS
P.O. BOX 974
IDAHO FALLS, IDAHO 83401

COMMITTEES
AGRICULTURAL AFFAIRS
RESOURCES AND ENVIRONMENT
TRANSPORTATION

Idaho State Senate
CAPITOL BUILDING
BOISE

1982 OCT -4 AM 10: 43

September 27, 1982

Senator Malcolm Wallop
204 Russell Office Building
Washington D. C. 20510

Dear Senator:

As a State Senator, I represent Teton County, Idaho. You are well aware that Teton County, Wyoming, adjoining the Teton Valley of Idaho is encompassed in your recent inclusion as Wilderness Area.

Studies of the hearings should have indicated to you the displeasure of the local people of this proposition. Why it was taken out of the original Wilderness designation is certainly understandable. It serves as a very well managed back yard for our local people under the multi-use basis. To restrict the entire area under the Wilderness Area designation would seriously diminish the existing life-style of the local citizenry and many citizens regionally. You are aware that the U. S. Forest Service has done a marvelous management job through the years under the multiple-use concept.

I am dismayed and my constituency is dismayed. The only ones who could possibly be happy about your once again including the west slope of the Teton Range into the Wilderness designation would be the high-country hikers. Their economic contribution to the Teton County, Idaho area is (0) zero.

I encourage you to reconsider and again delete the west slope of the Tetons from Wilderness designation. I'm confident your efforts would be recognized as a "good neighbor" gesture. Otherwise, your concern and understanding of western problems are appreciated.

Best Regards

Wm. L. Floyd

Wm. L. Floyd
Senator #31

COLUMBIA
PLYWOOD
CORPORATION

P. O. BOX 1780 KLAMATH FALLS, OR 97601/503-882-7281

August 16, 1982

Honorable Mark O. Hatfield
United States Senate
Senate Office Building
Washington, DC 20510

Dear Senator Hatfield,

Our company would like to thank you for introducing legislation and providing a vehicle for those concerned about the performance of federal timber sale contracts.

Our company, Columbia Plywood Corporation, would support legislation which:

1. Would provide termination of 40% of the volume under contract as of October 1, 1981, one sale or 20 MM BF, whichever is greater;
2. Would allow contract term adjustment limited to no more than five years beyond the original contract termination date;
3. Would not cap the Forest Service timber sales program for the east side of Region 6; and
4. Would make all purchaser credit effective.

In order to be as fair as possible to government, competing companies and dependant communities, legislation should contain provisions for termination, contract term adjustment and purchaser credit similar to the draft legislation worked out by you and Senator McClure on July 14, 1982.

Your present bill talks about "showing of economic hardships by the private contracting party". One may not show an economic hardship today, but if that same company is to cut those sales it could be a hardship when they are cut. Then it is too late and one has gone into bankruptcy.

I would appreciate it if you would make this letter part of the hearing record.

Sincerely,

Bill Greenwald

Bill Greenwald
Timber Manager

BG:rjm

cc: Andy Honzel
John Tritch

DUKE CITY
LUMBER COMPANY, INC.

P. O. BOX 25807 ALBUQUERQUE, NEW MEXICO 87125 TELEPHONE (505) 842-6000

August 12, 1982

The Honorable Mark O. Hatfield
United States Senator
c/o Sub-committee on Public Lands and Reserved Water
Senator Malcolm Wallop, Chairman
3104 Dirksen, Senate Office Building
Washington, D. C. 20510

Dear Senator Hatfield:

I am sorry that the cost of traveling to Washington, D. C. precludes our company from testifying in person regarding our opposition to Senate Bill 2805. We hope that this letter will be given the same consideration and attention as testimony regarding your bill.

Duke City operates sawmills and lumber finishing plants in New Mexico, Arizona, and Texas. We are dependent almost 100% on federal timber for our source of supply in Arizona and New Mexico. We are opposed to the enactment of Bill #2805, even though one third of our timber under contract is inoperable today because of high stumpage prices caused by results of high bidding. The main thrust of Senate Bill #2805 is to allow a company to terminate sales purchased prior to January 1, 1982, which will "avert widespread bankruptcies". To date, there has been no let up in the bidding pattern within Region 3. My analysis based on United States Forest Service Timber Sales offered for sale and sold since January 1, 1982, which were located within Duke City's operating area, shows an upbid of 53.3% above the appraised price on 98 million board feet. The same analysis based on all timber offered for sale in Region 3 excluding Ranger Sales for the same period shows an upbid of 45% on 120 million board feet. There is little doubt that some companies bidding timber to higher levels prior to January 1, 1982, are planning to turn back large volumes of stumpage now under contract via the terms of the proposed Hatfield Bill. The pattern of high bids in the past and high bids today in Region 3 does not track with the intent of the Hatfield Bill and only fosters more speculative bidding in the future.

Duke City Lumber Company has approximately one third of its volume under contract at stumpage rates well above the break-even point on today's market. We had the option to bid or not bid these sales and we made the decision with our eyes open. We believe that all companies should live up to the terms of their contracts.

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Page 2
August 12, 1982

Our company feels that this Bill does not address the real problem within our industry today which is high interest rates and unprecedented inflation. The installed productive capacity of our industry today exceeds the demand by almost two to one. If building starts in this country remain under 1.2 million starts on an annualized basis for another two years, and our nation continues to import 30% of what it needs from Canada, then more of the lumber manufacturing capacity in this country must go out of business no matter what the price of public timber sells for.

The effect of the Small Business Administration on bidding patterns must be considered before any timber relief bill is considered or passed by Congress. Our company is forced to bid timber to high stumpage levels because we only have the option to bid on those sales not considered for small business set asides. In New Mexico, for example, we are allowed to bid 20% of the sale offerings on one forest, 42% and 67% respectively on two other national forests. The Small Business Administration - Forest Service base share determination and its effect on bidding should be an integral part of any lumber relief bill.

Duke City Lumber Company, Inc. is including a letter addressed to the Honorable James McClure dated May 27, 1982, whereby we have addressed in greater detail our views on the subject of timber sale termination.

We will appreciate our views being considered as part of the record at the hearing regarding Senate Bill 2805 before the Sub-Committee on Public Lands and Reserve Water.

Yours truly,

DUKE CITY LUMBER COMPANY, INC.

Carl Hakenson

Carl Hakenson
Vice President

fm

cc: Senator James McClure
Congressman James Weaver
Senator Pete V. Domenici
Senator Harrison Schmitt
Congressman Manuel Lujan, Jr.
Congressman Joe Skeen

Attachment

DUKE CITY
LUMBER COMPANY, INC.

P. O. BOX 25807 ALBUQUERQUE, NEW MEXICO 87125 TELEPHONE (505) 842-6000

AUG 16 1982

GY AND NATURAL RESOURCES
RECEIVED
AUG 18 1982
WASHINGTON, D. C. 20510

August 13, 1982

The Honorable James McClure
United States Senator
c/o Sub-Committee on Public Lands and Reserved Water
Senator Malcolm Wallop, Chairman
3104 Dirksen, Senate Office Building
Washington, D. C. 20510

Dear Senator McClure:

It will be impossible for my attendance at the committee hearing in Washington regarding Senate Bill #2818, Contract Term Adjustment.

Duke City Lumber Company, Inc. is in favor of your bill as written.

We do not agree that sales should be terminated for the reasons outlined in our May 27, 1982, letter to you; a copy is attached.

We contend that a company purchasing National Forest Timber, for whatever reason, should be responsible for that purchase and Contract Extension is the only equitable way to treat the timber industry fairly.

We feel that your bill should include a provision calling for conversion of Ineffective Purchaser Credit into Effective Credit. Ineffective Purchaser Credit is a private subsidy to government. Duke City Lumber Company has several hundred thousand dollars of ineffective credits for roads that are constructed as multiple use roads. It is wrong for us to have to construct roads from our own funds that may not be used again by the timber industry until the next entry, some 10 to 20 years in the future.

I will appreciate my comments being made a part of the Hearing record.

Sincerely,

DUKE CITY LUMBER COMPANY, INC.

Carl Hakenson
Carl Hakenson
Vice President

fm

Attachment

DUKE CITY
LUMBER COMPANY, INC.

P. O. BOX 25807 ALBUQUERQUE, NEW MEXICO 87125 TELEPHONE (505) 842-6000

May 27, 1982

The Honorable James McClure
United States Senator
1251 Dirksen, Senate Office Building
Washington, D. C. 20510

Dear Senator McClure:

Our company is a lumber manufacturer with sawmills in Arizona and New Mexico.

We understand that you and other Senators are contemplating legislation to allow the BLM and Forest Service to terminate, without penalties, certain timber sales contracts between the Government and various lumber manufacturers.

At the most recent Board of Directors meeting of the Federal Timber Purchasers Association in Denver, Colorado, on April 19, 1982, with 13 member companies represented in person and four others by proxy, a unanimous resolution was passed as follows:

> "Federal Timber Purchasers Association is adamently opposed to subsidies, giveaways, and reductions of contractual rates for stumpage as a means to ameliorate the current adverse economic situation in our industry. FTPA endorses the principal that, for services rendered, a timber purchaser be fully reimbursed, i.e., recovery of road construction costs. The current economic situation results from wood products demand problems caused by high interest rates. Those problems should be addressed forthwith by the Congress and the Administration."

We would like to elaborate further upon that resolution:

This proposed legislative relief originated with a number of companies operating on the West side of the Cascade Mountains in Oregon and Washington, where timber is sold at a flat rate (without stumpage rate adjustment). Those operators had been more eager to speculate on timber than operators in the inland regions because they have had the full benefit of lumber price increases, whereas inland operators have paid half of the lumber price increases, between the dates of sale and harvest, to the Government in the form of stumpage. This resulted in artificially high prices for timber West of the Cascades. Some of those West Coast operators are very sound businessmen who bid timber to artificially high prices as a protective measure to preserve their investments, or expand their productive capacity. However, some of the operators are speculators trying to begin new operations. We assume such bids were made knowingly and with business acumen. That fact is evident since the volume of timber under contract on the West side is greater than any other region in the country.

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Now let us explore some premises on which the proposed legislation is founded:

Premise 1 - There is a large quantity of timber under contract, particularly in Region 6, which is uneconomical to harvest in today's economy. If those sales were cancelled, that volume might be resold at some lesser price which would let the Forest Service better manage the resource.

Discussion - The problem today is not one of price but basically one of reduced demand (as a result of unprecedented inflation and high interest rates) to a point where industry's installed productive capacity exceeds today's demand by almost two to one. If, then, building starts in this country remain under 1.2 million starts on an annualized basis for another two years, and our nation continues to import 30 percent of its wood needs from Canada, then more of the lumber manufacturing capacity in this country must go out of business, no matter what the price of public timber.

If, on the other hand, by passage of Senate Bill 2226 and the similar House Bill already passed on May 11, 1982, we return home construction to some level approaching normal demographic demand, then within two years there will be a reasonable demand for the excess timber now under contract and those who speculated upon the price of timber will be able to meet their contractual obligations.

Premise 2 - Cancellation of high price contracts and repurchase of lower priced timber will create employment in the lumber industry.

Discussion - If nothing is done to increase demand, then added production will only depress prices in a very short time so that the industry will again face the same situation it now faces. At this time, if stumpage prices are reduced in the Northwest, it might be an inducement for those operators to resume production. However, if Northwestern operators resume production on reduced stumpage costs, then lower lumber prices would immediately follow. As a result, operators in other regions would be forced to either curtail or completely close their plants because they would be unable to remain competitive. The result would be that employment might well increase in the Northwest, but that employment would decrease in the Rocky Mountain area where the timber quality and value is much lower.

National production and consumption are in equilibrium today. We would, however, foresee an almost disatrous situation evolving if one region of high quality stumpage were granted reduced stumpage rates, while other areas of lower quality stumpage would have to pay minimum stumpage prices that are above the actual value.

Premise 3 - This legislation will perform a more orderly harvest of timber from public lands.

Discussion - If demand does not increase, then there is already ample production to satisfy the present demand, and the backlog of stumpage under contract will not be harvested at the current inflated price or even a reduced price. Continuing slack demand would ultimately induce a further lockup of productive lands into a restrictive single-use category, such as wilderness, so that when and if our economy ever returns to any normal historic pattern, the timber resource will no longer be available. If on the other hand, demand does pick up, this legislation will not be needed.

Premise 4 - This legislation will save some companies from going broke.

Discussion - If there is no material increase in demand over the next 24 months, then some of the existing capacity must go out of business. Should the decision of which companies face bankruptcy be determined by legislation or economics? Is it not better that the determination be made in a free competitive climate where each operator is forced to live up to the contracts he entered into freely rather than by a "bail out" that will upset the free competition in the industry?

Premise 5 - This legislation will enhance fair and equitable competition.

Discussion - If the homebuilding industry recovers, there is no need for such legislation. If, on the other hand, there is no recovery in homebuilding, this legislation will induce collusion between operators in determining which sales to cancel and which to bid in the future. It will also induce greater speculation since a precedent will be established of a "bail out" if one overbids and another building cycle ensues prior to harvest at some future date.

If homebuilding does not recover, this legislation has performed no equitable objective since those companies saved by sale cancellation will be replaced by other companies in a different geographic location going out of business.

Conclusion - We see no equitable or public policy advantage of this proposed legislation. It will be very disruptive in the industry.

We do feel that there is need for action in regard to purchaser road credits. We believe timber purchasers should be reimbursed or credited for the total Forest Service estimated cost of constructing required roads. Furthermore, purchaser road credits need to be made fully transferrable between National Forests, in order that we may make the best use of all available cash and credits.

If there are other objectives to be attained by this proposal, please advise us so that we may respond to them. If not, we beseech you not to sponsor such an ill-conceived proposal that can only benefit a few to the detriment of the industry, the Federal Treasury, and Society in general.

Yours truly,

DUKE CITY LUMBER COMPANY, INC.

Carl Hakenson

Carl Hakenson
Vice President

fm

cc: Congressional Delegation

ANN BEVENS / NORVAL BEVENS

NORTH SIDE Lumber Company

PHILOMATH, OREGON 97370

SEP 23 1982

September 20, 1982

SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
RECEIVED
SEP 23 1982
WASHINGTON, D.C. 20510

Chairman James A McClure
Senate Committee on Energy
and Natural Resources
Dirksen Senate Office Building 3121
Washington, DC 20510

Dear Chairman McClure:

In writing this letter I hope to help convey to you the importance of the passage of the Hatfield, McClure, and Jackson Timber Contract Relief Bill. We are a medium sized small company employing approximately 250 people. We are approximately 90% dependent on Government timber. Private timber owners in this area are now selling the major portion of their logs to foreign markets mainly to Japan, however, China is becoming a serious buyer. There are restrictions on exporting timber purchased from our government and rightfully so. Prior to 1980 we were able to compete with the prices paid by the foreign market and got our fair share of what was available from the private timber owners. All we can get now is what is rejected on the export market which is very small and or very low grade junk type logs. We are operating now on short-term timber contracts purchased this year from the U.S.F.S. at today's lower prices so we can have a chance of breaking even after manufacturing and shipping costs.

Prior to 1980 when the housing market was booming and governmental agencies were predicting a timber shortage, the Forest Service was selling long-term contracts of four to six years. The speculators came into the market without adequate facilities to cut the timber they contracted for but with the intention of holding it. As the price accelerated it permitted them to sell logs or third party the sale with considerable profits, to a mill who had been unable to buy at the bidding table. The short-term contracts will surely take care of that problem. The mills also will need to be very cautious not to contract for more than they can cut in that shorter period of time because they too are caught with high-priced stumpage. The result of being constantly reminded through various government reports of a pending shortage of timber because of increased wilderness areas, a need for more housing and scared to death of the speculator.

The Banks who have participated in our money needs prefer us to have a two or two and a half year timber supply under contract. What we need is two operating seasons so the time of year the timber is sold should determine the length of the contract. We feel safe in predicting the market for this year and next (two years) but we do not like to try and predict it for four or five years. That is one reason we are in bad trouble now.

We are in SERIOUS trouble with the high priced timber contracts we cannot cut and we will never be able to cut them. It has taken more than two decades for the timber to go to the price it was in 1979. In two years the price that mills can pay for timber has fallen back to those base levels as a result of monetary controls and the lack of reasonable price mortgage money to build and sell homes. We can do nothing but default which will mean long drawn out litigation that will keep the timber tied up. If you will allow contract cancellation it will be rebid at today's prices and the Government will be getting paid, people will be back to work, the Banks will be happy again and allow us operating capital and we will hopefully be able to compete with the Canadians who have taken our markets.

What we are seeing is a terrible depression here in our area, where the timber industry is number one. Small and large businesses of all types; lumbering, logging, stores, restaurants, small shops of all kinds such as electrical, plumbing, furniture, carpet shops, on and on, BANKRUPT. Families breaking up, children with meager food and clothing crying for a missing parent, and suicides.

Suicides; let me relate one recently in our small lumbering community. A young man, 26 years old, never in any trouble, well-liked, looking for work until one day he was missing from home. There followed a long search for him. Just last week near his motorcycle and gun he was found by a couple picking mushrooms, but not before the animals had found him--sounds like a horror story? It is. Can you cry for his family? This community did.

Can't you see this nation has nothing to gain by our government forcing the timber industry to default on their contracts? What many companies like ours were able to save after taxes in years past has all been used up trying to keep operating and keep our employees at work. We also had government timber felled, when the price dropped out in the lumber market, that we had to mill at great losses--but mill it we did and we have never defaulted or been late with a government timber payment. Now we are so badly in debt that we cannot go on much longer. I feel sure the banks will look upon us more favorably again if we can get out from under these horrendous timber contracts. There is a way out, please vote for passage of the bill to alleviate the bankruptcy, lawsuits and the devastation of the small businesses and the working people.

If you have time, will you please read the copy of a more formal letter I wrote and sent to President Reagan a short time back.

Very truly yours,

NORTH SIDE LUMBER COMPANY

Anna Bevens

Anna M. Bevens
Partner

Enclosure

bh

NORTH SIDE Lumber Company
PHILOMATH, OREGON 97370

August 24, 1982

SENATE COMMITTEE ON
ENERGY AND NATURAL RESOURCES
RECEIVED
SEP 23 1982
WASHINGTON, D.C. 20510

President Ronald Reagan
The White House Office
1600 Pennsylvania Avenue NW
Washington, D.C. 20500

Dear Mr. President:

Will you please read the enclosure which is a copy of a page from our County's largest newspaper.

The top article states the facts that the Feds want timber buyers held to their contracts, which is a direct turn around from anything I have read or heard before about Assistant Secretary Crowell's position concerning the contracts. Could this be caused from top executive pressure?

The second article speaks for itself--did Weyerhaeuser's political influence and committee appointments affect the apparent change in Mr. Crowell's opinion? As you certainly must know, the large timber companies have been trying everything in the book to exterminate the small ones for years. The effect of current policies will be to leave only Weyerhaeuser and a few others who will control the industry. Could there be a conflict of interest here--I wonder what the court's position would be in this case.

A turn-back and resale of the timber bought at the exorbitant prices (caused by speculators, the government's predictions as to housing demand, timber supply, and long-term contracts) would not be anymore of a bail out than rescuing Weyerhaeuser from the blown down timber of Mt. St. Helens by replacing it with good standing timber and by providing disaster relief to build logging roads. I wonder again what the courts would say.

These timber contracts should either be cancelled without penalty and resold or the price rolled back to the appraised price the Forest Service was willing to sell for at the time of bidding, or the present going price and an escalation clause written into the contract.

It appears that your policy is to bankrupt the majority of the small mills and have only a few large corporations in the industry much like automobiles, oil, and steel are now. Wall Street applauds this policy as their clients will control and they will profit. Our jobs will be lost. Creation of big corporations that control specific industries now, such as automobiles, steel, and oil have only allowed productivity to fall in these U.S. Companies which has allowed more efficient foreign manufactures to take over these industries. Thus, when the small efficient wood products manufactures are forced out they eventually would be replaced by Canadian companies and the U.S. will have lost another industry.

Page 2
President Reagan
August 24, 1982

If some type of relief is not provided, the government will not get the revenue anticipated anyway. It will collect a minimal amount from the bonding companies but will collect little from the remaining assets of the independent mills. Most of the wealth these companies may have had at one time has been lost to sustain their employees and operations in the depressed markets of the last three years. Any funds recovered will only come at the end of long legal battles, bankruptcy proceedings and forced liquidation of heavy equipment for which there no longer is a productive use. Prices for government timber sold after industry control is achieved by the select few will be at lower and lower prices and the profits of the survivors will be exessive. If no relief is granted the people of the West will suffer economic disaster beyond what we now are experiencing, the cities, counties, and states will lose the major portion of their revenue and the Federal government will lose revenue from future timber sales.

Sincerely yours,

NORTH SIDE LUMBER COMPANY

Anna Bevens

Anna M. Bevens
Partner

AMB/rm
enclosures

cc Sen. Mark O. Hatfield
Sen. Bob Packwood
Rep. Thomas P. O'Neill, Jr.
Rep. Les AuCoin
Rep. Jim Weaver
Rep. Denny Smith
Rep. Ron Wyden
Sen. Edward M. Kennedy, probable next President
Sen. Jack Kemp, probable next President
Sen. Henry M. Jackson,
Sen. James A. McClure,
Governor Vic Atiyeh
Walter Mondale, probable next President
John Block, Sec. of Agriculture
John B. Crowell, Jr., Assitant Sec. of Agriculture
Bob McDermitt, U.S. Small Business Administration
Arnold Ewing, North West Timber Association
Orval Thompson, Weatherford, Thompson, Brickey and Powers, Attorneys

THE OREGONIAN, THURSDAY, AUGUST 19, 1982

Logging activity back in forests

The sounds of chain saws and log trucks have returned to state-owned forests as never before in 1982.

Almost all timber operators shut down logging last winter in anticipation of legislation offering price rollbacks and contract extensions for the recession-stricken wood products industry.

Loggers slowly began to return to work on sales in the Elliott and Tillamook forests and other state timberlands after a special session of the Legislature authorized State Forester Mike Miller to grant the price cuts and extensions.

The pace increased to a mediocre level early this summer. The Department of Forestry tallied 13 million board feet valued at $1.8 million harvested in June, followed by the same amount worth $1.7 million in July, which was 30 percent less than the volume logged in July 1981.

"But the activity greatly accelerated in the first two weeks of this month," Jim Fisher, department information officer, said Wednesday.

A total of 2,063 truck loads of logs was removed Aug. 1-13, compared with 2,757 loads for all of July, Fisher said. "We don't know if this rate will continue, but if it does it will be a 5,000-load month."

There are 66 sales being logged this week, up six from last week, he reported. Department personnel believe timber companies that asked for only six-month extensions of logging deadlines are attempting to complete sales before winter, he indicated.

Three sales expiring in 1985 were bid this month at an average of $129.25 per thousand board feet, about half the average price bid in 1981, Fisher continued. Bids have averaged only 11 percent more than appraised or minimum prices, off sharply from the bids two or three times the appraisals that were common before 1981.

Foot note

8-24-82

The State of Oregon's Legislators used common sense and good judgement in their decisions. The timber is being harvested and the State is receiving Revenues.

Anna Bevens

Feds want timber buyers held to pacts

WASHINGTON (AP) — The Reagan administration said Tuesday that it opposes legislation that would allow Western lumber companies to get out of timber-purchase contracts that are uneconomical in today's housing market.

Assistant Agriculture Secretary John B. Crowell Jr., whose jurisdiction includes the U.S. Forest Service, told a Senate subcommittee that the free market should be allowed to prevail.

Crowell testified before the Senate Energy and Natural Resources public-lands subcommittee on a bill that would allow timber companies to drop, extend or renegotiate timber-purchase contracts that they say are driving them out of business.

The companies bid for the timber when the housing market was booming. Now it's time to cut the trees, but the market has evaporated. Timber companies and sawmills say they can't cut the trees at the contract price without going bankrupt.

Crowell said the companies should be held to their contracts.

He said the administration "strongly opposes any rollback of prices" on the contracts as "grossly inequitable." Abandoning contracts would "totally relieve the original purchaser of his contractual obligations, all at the expense of the United States," he said.

"In a free-market system where mistakes are supposed to be paid for by the person entering into the contract, that form of relief is extremely generous," he said.

Crowell said the administration holds that, if the timber is not cut, "the contracts should be defaulted, and . . . the defaulting purchasers should pay whatever damages may accrue by reason of default . . . The only appropriate action is not to interfere with the obligations and consequences created by existing contractual commitments."

He said the administration would support legislation to allow flexibility in the payment terms "to assure an eventual recovery of damages without forcing the defaulter into bankruptcy."

He said negotiable items could include schedules for payment of damages, interest rates and security for the debt.

Sen. Mark Hatfield, R-Ore., criticized the administration position.

"I'm appalled about the callous disregard this administration has for this industry," he said. I'm sorry I'm a member of a party that proposes this kind of liquidation."

Oregon Gov. Victor Atiyeh testified for the bill Monday, saying that it "would offer hope for the survival of one out of every two jobs in the state of Oregon."

He noted that 34 percent of Oregon's sawmill workers have been laid off or are working curtailed shifts; 25 percent of plywood-mill workers have been laid off; and 29 plywood and 26 sawmills have closed their doors.

But the situation could become worse if the government attempts to hold timber companies to their contracts, he said.

Weyerhaeuser, BN owed no U.S. tax

SEATTLE (AP) — Weyerhaeuser Co. and Burlington Northern Inc. are among the companies that owed no federal corporate taxes on 1981 profits, according to an independent tax study.

The study found that nearly one out of six of the largest profitable companies in the United States paid no corporate-profit taxes last year.

The annual study conducted by Tax Analysts, a non-profit research organization, found that the actual corporate-tax rate for the 514 top companies that made money last year declined to 20.5 percent of earnings, down from 22.7 percent in 1980.

The survey said railroads, banks and paper companies were most successful in avoiding 1981 tax payments.

Net profits for Burlington Northern reached $272 million, while Weyerhaeuser reported 1981 profits totaling $260.6 million.

Leroy Sundby, vice president and controller of Burlington Northern, said here that the company took advantage of deductions and credits allowed for capital investments and equipment depreciation.

Under the 1981 Economic Recovery Act, the railroad was allowed to begin depreciating capital-equipment costs over a transitional five-year period.

Because of the act, railroads were able to begin depreciating capital-equipment costs, which had not been depreciable before, Sundby said.

As a result, Burlington Northern will be able to depreciate more than $1 billion in equipment costs over a five-year period.

Sizable tax credits for capital investments also aided the railroad's financial picture.

Under that policy, Burlington Northern received tax credits of 10 percent of capital investments. The government allows companies to pay up to 90 percent of their corporate tax with those tax credits.

Sundby said Burlington Northern had a carryover in investment tax credits of nearly $90 million.

A Weyerhaeuser spokesman said corporate taxes were avoided by the company because of the investment-tax credit and the slumping forest-products industry.

Dennis Higman said Weyerhaeuser's 1981 earnings fell to $260.6 million from $511 million in 1979.

He said the company has maintained its employment levels and its investment rate despite the recession.

Weyerhaeuser employs 11,000 people in Washington state and 42,000 nationwide.

Higman said the company received investment-tax credits totaling $77 million in 1981, when two mills were built in the South.

Regional Council of Rural Counties

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Sacramento, California
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RESOLUTION IN SUPPORT OF U. S. FOREST)
SERVICE AND BUREAU OF LAND MANAGEMENT)
TIMBER SALE CONTRACT LEGISLATION)

RESOLUTION NO. 82-4

1982 SEP 20 PM 1:01

WHEREAS the California Regional Council of Rural Counties recognizes the severely depressed economic condition of member counties; and

WHEREAS one of the basic industries in these counties is timber; and

WHEREAS the lack of economic activity in the timber industry has caused high unemployment with subsequent foreclosures and family bankruptcies and a resulting financial crisis to local governments; and

WHEREAS a significant number of timber operators in California are dependent upon federal timber for their raw material supplies; and

WHEREAS if the purchasers of federal timber are not granted relief from their contracts, the resulting defaults may very well lead to bankruptcy and increased economic burden to communities and county government.

NOW, THEREFORE, BE IT RESOLVED that the Regional Council of Rural Counties (RCRC) does hereby strongly support Congressional legislation that will address the issue of "timber sale contract relief."

BE IT FURTHER RESOLVED that RCRC recommends that such legislation include the following basic concepts:

1. Contract Termination of a given percentage of timber volume under contract prior to January 1, 1982.
2. Contract Term Adjustment authorization for the remaining timber under contract purchased prior to January 1, 1982.
3. Modification in purchaser credit procedures which will eliminate "ineffective" purchaser credit and permit transfer of purchaser credit between forests.

BE IT ALSO FURTHER RESOLVED that copies of this resolution be mailed to each member of the Subcommittee on Public Lands and Reserved Water of the Senate Committee on Energy and Natural Resources; the Senate Committee on Agriculture, Nutrition and Forestry, Subcommittee on Forestry, Water Resources and Environment; the House Committee on Agriculture, Subcommittee on Forests, Family Farms and Energy; Senators Cranston and Hayakawa; Congressmen Clausen, Chappie, Shumway, Pashayan, Coelho, Thomas, Lagomarsino, Panetta; Assistant Secretary of Agriculture John B. Crowell, Jr.; Chief, U. S. Forest Service, R. Max Peterson; R-5 Regional Forester, Zane G. Smith, Jr.

PASSED AND ADOPTED by the Regional Council of Rural Counties this 25th day of August, 1982.

ATTEST:

Beverly Worth
BEVERLY WORTH, EXECUTIVE SECRETARY
Regional Council of Rural Counties

Frederick C. Joyce
FRED C. JOYCE, FIRST VICE PRESIDENT
Regional Council of Rural Counties

ROSEBURG
LUMBER CO.

JOHN J. STEPHENS
President and Chief Executive Officer

1982 SEP 24 AM 9 42

September 17, 1982

The Honorable Malcolm Wallop
United States Senate
Washington, D.C. 20510

Dear Senator Wallop:

The predicament of the Western Wood Products Industry was fostered by federal policies and U.S. Forest Service publications that created an illusion of a potential timber shortage. These policies constrained the supply made available, while predicting growing demand and high levels of inflation.

Realistically, our markets for lumber and plywood have collapsed; prices have fallen steadily. Unemployment in many of our timber dependent areas exceeds 25%.

The Western Wood Products Industry will not survive unless some form of relief program is provided. Virtually every forest products company will face economic ruin if forced to harvest or default on the high priced timber contracts coming due.

The Industry has worked for nearly a year to develop a legislative proposal that will prevent widespread bankruptcies and further loss of jobs in our communities. This plan includes some termination of contracts and extension of the expiration of others.

The Administration's position is less than desirable when they would prefer to watch an entire Industry default because of a situation created by their own policies and publications.

P.O. BOX 1088 • ROSEBURG, OREGON 97470 • PHONE (503) 679-8741 • TELEX 151-059

The Honorable Malcolm Wallop
United States Senate

September 17, 1982
Page 2

As one highly efficient West Coast operator told Congress, his volume of potential defaults exceeds the total profits made during his company's forty years. The most efficient operator in this country could not operate this timber under present market conditions.

The procedure of default which the Administration is currently favoring, would result in a glut of timber and lower product prices. This would have a negative impact in the traditional markets of Southern wood products.

A termination of contracts would provide an orderly re-introduction of this timber volume to assure an adequate supply when lumber and plywood markets improve. This would control a run up in consumer prices which would occur in a recovery.

Your support of Senators' Hatfield and McLure's legislation for proposed federal timber contract modification will assure survival to a basic Industry so vital to our Nation.

Thank you for your support.

Very truly yours,

John J. Stephens

TELEPHONE
(415) 956-0410

WESTERN TIMBER ASSOCIATION

211 SUTTER STREET, SAN FRANCISCO, CALIFORNIA 94108

1982 SEP 20 PM 1:01

September 13, 1982
File No. 2.661

The Honorable Malcolm Wallop
Senate Committee on Energy and Natural Resources
204 Russell Senate Office Building
Washington, D. C. 20510

Dear Senator Wallop:

Over the past few months we have attempted to portray the details of the timber industries economic dilemma on a factual and straight-forward basis. The enclosed paper Desperation In The West - Something Must Be Done is a synopsis of the reasons behind the problems facing small and large timber companies, communities and many counties in the west. It also suggests that the basic concepts of timber sale contract termination, Contract Term Adjustments and modifications of the current Purchaser Credit procedures are reasonable ways to help minimize bankruptcies and subsequent restructuring of an industry that is vital to the well-being of our nation.

Administration's Default Approach is Ruinous

The Administration's statement during hearings on S. 2805 and H. R. 6913 were to let the contract default process run its course and offer a means to repay damages. The interim effect on bonding capacity and ability to borrow money for capital improvements would be devastating. Additionally, the interest payments on the defaulted contracts would bankrupt even the most efficient operators. The Administration must understand that the contract values no longer exist and probably will never reach their bid values again due to changes in fiscal policies in our economy. If the plan of default without timber sale contract relief is pursued, it is safe to expect that the U. S. Government will end up owning several sawmills.

Not A Bail-Out

The proposed legislation does not sanction any payments or loan guarantees to timber purchasers. In fact, the plan will permit a resale of timber sales that will never be operated otherwise, and save the government money compared to a proposal of default and probable time-consuming litigation. During this period of contract default and bankruptcy, in-lieu-of tax payments to counties will continue to drop and unemployment is certain to remain at the 25-35% level in many communities dependent upon the timber industry.

Uncertainty Is Costly

Many companies, communities and county officials have been waiting for the results of the long negotiations and discussions on timber sale contract relief. Although many believe some sort of legislation will be passed, the uncertainty of when it will occur has resulted in the decision of some companies to cease operations. Many others have stopped operations, because they do not have timber under contract at a price that will provide wood products at anything but a heavy loss. They have hope that timber will continue to be sold so that they can buy at today's markets. Most have no illusions that a high percentage of their timber under contract will ever be economically operable.

In summary Senator, we need reasonable legislation this session that will permit the timber industry, hundreds of communities and thousands of families to survive until our economy turns the corner and housing starts do increase. Your help is essential and will be greatly appreciated.

Please contact us if you have any questions.

Sincerely,

William N. Dennison

William N. Dennison
Executive Vice President

WND:dm
Enclosure

September 12
1982

DESPERATION IN THE WEST--SOMETHING MUST BE DONE

By

William N. Dennison
Executive Vice President
Western Timber Association

Richard G. Reid, Vice President
Information and Environment
Western Timber Association

Things are getting desperate for the people who live in the forested areas of our western states. One of the basic industries of the area, timber, has been in a depression for over two years, and the lack of economic activity has put people out of work resulting in foreclosures and family bankruptcies and has brought financial crisis upon local governments.

Many say the federal government is responsible because of the interaction of several policies which have been in effect over the past decade. Now, after ten years, the chickens have roosted. Because the federal government is responsible, industry contends that the government should take the lead and institute actions which would solve the problem.

Specific actions have been proposed by the timber industry, and it is up to Congress to implement them. Consequently, now is a good time to examine more closely how the western economy got into this mess and exactly what is being proposed to remedy the situation.

Nagging Recession

What now is acknowledged as the longest and deepest depression in the forest products industry since the Great Depression of the 1930's began almost 2-1/2 years ago.

- M O R E -

Lumber and plywood manufacturers warily began to watch their markets in late 1979 when prices started to soften; but early in 1980, the bottom fell out of the residential housing market, and wood product prices went into a nose dive. When things leveled off, the industry in the West was operating between 30% and 40% below normal and thousands of people were out of work.

Of course, the industry had been through recessions before, most recently in 1975, so its leaders felt confident that most companies could ride it out successfully.

That was two years ago, and things have not gotten much better. The Western Wood Products Association reported a slight increase in the production of western lumber this spring. They also report that over 11,000 sawmill workers out of a total 23,000 in California are still either unemployed or working reduced shifts.

Companies that were especially hard-hit were those which depend on National Forest timber for their raw material supply. Some companies depend totally on this source.

Supply and Demand

In the late 1970's, the demand for wood products was high, but on many National Forests less timber was being offered for sale than in the years prior to 1975. One of the major, but not the only, causes of this was the push to double the size of the National Wilderness Preservation System on the National Forests of California.

As the result of legislation which passed the House of Representatives and a lawsuit brought by the State of California, National Forest land which previously had been counted on for future timber sales was made off limits. Sale programs were disrupted and the Forest Service had to try to find timber in other areas. Finally, it got to the point where some agency people perceived that they had no where to go for timber until the issue was resolved, and companies became concerned about future timber supplies.

The effects of this can be seen on the Trinity National Forest in northern California. In 1979, that forest sold the smallest volume of timber in the decade at a time which was the height of the market. Between 1978 and 1980, the price companies had to pay for standing timber doubled, topping at an average selling price of $350/thousand board feet.

Inoperable Contracts

With the prices for Douglas-fir lumber sitting well below $200/thousand board feet, it is obvious no one would be able to harvest and manufacture profitably trees worth $350/thousand. To determine the exact extent of the problem, a group of northern Califonria federal timber purchasers contracted with consulting forester George A. Craig to do a study of the federal timber contract situation in California.

On May 28, 1982, Craig released his concluding report on Forest Service Timber Sale Contracts In California. It is significant. He opened by quoting a March 23, 1982 report "Forest Service Timber Sale Contract Situation" in which Forest Service, U.S.D.A., stated:

> "The economic climate has changed significantly and so has the timber producer's situation. Many have high priced National Forest timber sales under contract. The prices were bid competitively during economic times that were entirely different from the current climate. These National Forest timber purchasers are caught in a squeeze from which there seems no relief. Costs keep increasing and markets have evaporated...

- MORE -

"The details of the situation facing the individual timber producers are largely unknown, and may vary widely from the average..." The federal government also was aware of the problem but not of its extent. Mr. Craig's study was needed to quantify the problem.

Approximately 60% of the uncut timber under Forest Service contracts in California was included in the survey (366 timber sales containing 3.735 billion board feet of the 6.2 billion board feet under contract).

About 40 mills and 20 purchasers were involved in the sample. The basic data were complied from Forest Service reports for each contract by the timber purchasers and summarized by Mr. Craig. His procedures were reviewed and approved by Forest Service timber management staff in the Regional Office.

No Break-Even Contracts

The results from this comprehensive study are startling! Not one of the 366 contracts reviewed had an opportunity for the operator of average efficiency to break even in the first quarter of 1982. In fact, the average operator would lose $236 per thousand board feet (MBF). The best contract had only 2,867 MBF remaining and showed a deficit of $1.36/MBF. For all of the contracts, average operating costs were $295/MBF and standing timber costs of $222/MBF for a total cost of $517/MBF. This will not be offset by the expected product prices of $281/MBF.

The effects of this situation are not only felt by unemployed timber workers, but by all taxpayers in rural counties.

This is the major reason that the California Regional Forester recently revised his estimate of FY '82 county revenue from National Forest receipts downdard from $34.2 million to $28.7 million. This is 43% less than counties received in 1979, 23% less than in 1980 and 30% less than 1981. Some counties will feel the impact more than others. Whereas Butte County revenue is expected to drop from a 1981 return of $431,900 to $339,400 in 1982, Trinity County will lose almost $1.5 million ($4,504,200 to $3,127,700). Lassen County will drop from $2,336, 300 to $1,903,500 while Siskiyou County is threatened with the loss of #3 million ($6.6 million down to $3.7 million). Humboldt and Del Norte County returns are expected to be cut in half.

Forest Service Non-Declining Yield Policy Shares Blame

In addition to uncertainties over possible withdrawals of timber land, other government resource policies must share the blame. One of these is the nondeclining yield policy which does not allow increases in timber sales if there will be a drop off later. This policy creates real timber shortages during times of high demand.

For example, during 1977-78, the Forest Service sold 1.59 billion board feet and 1.94 billion board feet of timber respectively in California. In contract, from 1964-70 the sale program only once dropped below the 2 billion board feet level. That was in 1969 when Forest Service sold 1.9 billion board feet. Forest Service was either not willing or able to adjust the timber sale program to meet demand when it was desperately needed. Thus, there was increased competition that drove timber sale bids up.

Bugs Played Their Part

In California, things were made worse by a heavy insect infestation from 1976-79. Over 9.6 billion board feet of drought killed timber was reported by the Forest Service on 12 national forests in California. Nearly 2 billion board feet of this distressed timber was offered and purchased. Timber operators rallied to help the Forest Service to minimize value losses. To do so, they had to forego the harvest on some of the earlier sales for one or more years. The operational

-MORE-

costs on those deferred sales which were still under contract when the decline in lumber markets began in 1979-80 continued to increase. Some of those sales are no longer economical to operate.

Sprialing Inflation Spurred The Bidding Trend

Spiraling inflation also caused a problem for timber operators. Some of the anticipated inflation in product prices was also included in the bidding when competition became intense.

An example can be shown how bidding For National Forest timber has changed in the past 15-17 years. The average costs for standing timber in 1965 were approximately $16/MBF. By 1980 they had increased to over $200/MBF. In five northern California forests the stumpage costs in that year were over $400/MBF. Those dependent on National Forest timber for their raw material had only one choice other than to bid on the National Forest timber--shut-down their plants. Some did that, others attempted to protect their investments.

When the housing market collapsed an industry vital to the mountain counties of California as well as much of Oregon, Washington and Idaho was left severely crippled.

This problem has been compounded by Canadian subsidy to their timber industry which has permitted Canada to capture over 32% of the U. S. domestic lumber and plywood market. The question that the timber industry faces today is not how to increase profits--it is how to survive.

Timber Sale Contract Relief

The forest products industry never has been one to seek a "bail out" during hard times. It is a cyclic industry, and mill operators are willing to face the ups and downs as part of both the potential and risks involved. But the industry has not been in a situation like this since the Great Depression. The last time government action was contemplated to save the industry was in 1935 when legislation was introduced to allow companies to terminate timber sale contracts.

Presently, the only alternatives to many companies, large and small, are to operate at a great financial loss and probably go bankrupt or default on their timber sale contracts and use the courts to delay bankruptcy. In either case, it is the people in mountain communities and their local governments that will suffer the most.

Minimizing Losses

Losses to the federal treasury and local governments can be minimized if a portion of the contracts could be terminated and the timber reoffered for sale. It is, however, impossible for the federal government ever to see the money which was actually bid for the timber in anticipation of future values. The best the government can hope for is to recoup the real value of the timber in today's deflated market by terminating contracts and reselling it. Companies then could continue to operate and support their local communities.

The timber industry has taken the initiative in this effort, and, after considerable internal negotiation, has come forth with a proposal which is intended to resolve the problem and minimize losses to the government.

The proposal being reviewed by Senators Hatfield and McClure are designed to help counties and communities by allowing a basic industry to survive. If implemented, the proposal would permit termination of up to 40% of the timber volume under contract to individual operators, possible extensions of up to 5 years for the remaining sales and changes in the way road construction credits are handled. There are good reasons for each proposal.

Termination of Contracts

Termination of up to 40% of an operator's timber volume under contract would

- MORE -

permit those sales (that may never be operated) to be put back on the market, where they can be rebid at today's prices. Losses to the federal and local governments would be minimized and mills could operate.

Contract Term Adjustment

The termination dates of the remaining sales could be adjusted to permit them to be operated as wood product markets improve. This also should be beneficial to revenues in the long run.

Changes in Purchaser Credit

Most of the roads on the National Forests are built by timber purchasers to Forest Service specifications. The purchasers are compensated by credits against the price of the timber equal to the estimated costs of the road construction. Presently, on many sales, there is insufficient value in the standing timber to cover the costs of road construction. There is a deficit, and part of the construction credits are ineffective. This means the purchaser must pay the cost from his own pocket.

Changes proposed in Purchaser Credit procedures would include:

1. Elimination of ineffective Purchaser Credit. This would mean that Purchasers would be paid for all the work that they accomplish on road construction. As it is now, road construction costs on deficit sales are borne by the timber purchasers who theoretically figure it into their bid. In fact however, they often add the deficit attributable to road construction costs to their bid, so that Purchaser Credit is "effective" and thus transferable to other sales. This has no effect on county receipts, nor would the proposal, since county revenues are based on gross national forest receipts without consideration of road costs. It will mean that the government will pay for capital improvements for public use provided by the timber purchaser even when they are in excess of the timber value.

The real answer, is for Forest Service to reduce road construction and other costs to more reasonable levels.

2. Transfer of Purchaser Credit between forests would be permitted. Currently, Purchaser Credit can be transferred between sales only within a given forest. The proposal would permit transfer of Purchaser Credit between different forests. This will improve cash flow for timber purchasers that will generate increased employment during this transition period toward an improved economy. The proposal should be beneficial to county revenues in that money expended on necessary road construction can be transferred to permit payment for removal of logs on another sale that otherwise could not be operated due to restricted cash flow.

Long Term Salvation

The only real long term salvation for the housing and timber industries, and their dependent communities, is a reduction in mortgage interest rates to stimulate wood product markets.

It is clear, upon analysis, that government resource, fiscal and monetary policies have combined to devastate two basic industries--housing and the dependent timber industry. It also is clear that the proposed relief is not a "bail out." The alternatives to not enacting the proposals would mean greater losses in government revenues and total distuption of many local economies. With the proposals, the government will lose some revenue, but local economies would be saved. The public benefits clearly outweigh the costs in this case.

# # #

THE WILDERNESS SOCIETY

FOUNDED IN 1935

August 26, 1982

The Hon. Mark O. Hatfield
United States Senate
Washington, D.C. 20510

Dear Senator Hatfield:

On August 12, 1982 the Wilderness Society testified at hearings of the Public Lands Subcommittee of the Senate Energy Committee, which you chaired, on S. 2805 and S. 2818.These bills would provide for contract relief for purchasers of national forest timber. During our testimony we stated our strong opposition to provisions for the validation of "ineffective" timber purchaser road credits and their transfer between national forests and between timber purchasers. At this time we would like to supplement our testimony with the following details of our opposition to these provisions and specific responses to points raised by timber industry testimony and submissions. We request that this supplement be made part of the hearing record.

Under current law, purchasers of timber sales receive credit for road construction costs only up to the appraised value of the timber in the sale. In other words, if a timber sale is valued at $100,000 and the estimated cost of the road required to access the sale is $110,000, the purchaser is relieved of paying the Forest Service the $100,000 for the timber but is not credited for the additional $10,000, termed an "ineffective road credit" (additional payment of

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minimal "base rates" for the timber must also be paid by the purchaser in cash). Such timber sales are known as "deficit sales" and are offered by the Forest Service only at the specific request of a timber purchaser.

In 1975, legislation was introduced by Senator McClure that would have made all road credits "effective", meaning the Forest Service would be responsible for all road construction costs regardless of the value of the timber involved. Relating this back to our previous example, the Forest Service would not only forego the $100,000 in receipts for the timber it was selling but would actually pay the purchaser $10,000 in credits it could use on other national forest timber sales. Incredibly, this 1975 proposal would have been retroactive to 1965, requiring a massive governmental cash giveaway to past purchasers of hundreds of national forest timber sales. The measure was rejected by the Ford Administration.

In the pre-introduction drafts of the 1982 relief legislation, proposals for full road cost reimbursement were again put forward. In addition to the provisions of the 1975 proposal, the draft would also allow the road credits to be fully transferable between national forests and between timber purchasers. This would allow integrated forest products corporations that operate in several regions of the country to accumulate road credits in marginal timber growing areas like the Rockies and use them to pay for timber in more productive areas such as the Pacific Northwest. It would also allow the brokering of road credits between companies, much like the brokering of tax credits under the 1981 tax legislation and with many of the same negative impacts on the federal treasury.

Road credit provisions have not been included in S. 2805 or S. 2818. As we noted at the hearing, the conservation community is opposed to the addition of road credits provisions to timber relief legislation. Our testimony has outlined our major reasons for opposing the road credits changes. These include:

* the tremendous fiscal impacts of further increasing an already substantial public subsidy to the timber industry;

* the removal of major disincentives to pursuing highly uneconomic timber sales in remote areas;

* the increase in roadbuilding into presently roadless areas of the national forests, disqualifying them for any possible future consideration as wilderness;

In defense of the road credits provisions, timber industry representatives have stated that

1) road building in marginal lands of the inland region will be limited because "the government will have to, in one way or another, more fully pay the cost of these roads;" (p. 17, statement of Industrial Forestry Association, et al) and,

2) various legal constraints will allow only for road construction in an "economically sound" and "environmentally- appropriate" manner. (p. 3, statement of Western Timber Association)

These statements and assurances do not hold up under careful analysis. Here is our point-by-point rebuttal:

1. There is little reason to believe that funding the entire cost of road cnstruction from the Forest Service's timber purchaser credits fund will in any way hinder future roadbuilding. In FY 1982 the Timber Purchaser Credits fund was made an off-budget item. As such, expenditures are not tallied into the total budget picture and are not reflected in the level of the annual budget deficit. Although the appropriations committees can recommend a "cap" on timber purchaser credits, there is little incentive for them to hold the line on these expenditures since a high level will have no more effect on the budget deficit than a low level. In the Administration-proposed budget for FY 1983, the Timber Purchaser Credits fund used exclusively

for timber sale access roads was equivalent to more than 90% of the total construction budget for the entire National Forest System. There is nothing to prevent that figure from growing even higher in the years ahead.

2. Legal constraints are not likely to assure that road building with full purchaser credit will be economically and environmentally sound. Current law is not effective in preventing highly uneconomic timber sales in the national forests. Section 6 (k) of the National Forest Management Act (NFMA) requires the Forest Service to identify lands economically unsuitable for timber production and to remove them from the timber base. However, the Forest Service has not interpreted this to mean that they cannot offer timber sales in which anticipated returns cannot cover the costs. On the contrary, economics is not considered a limiting factor at all and is not a definitive decision element in planning timber sales.

Specifically, the NFMA rules adopted by the Forest Service call for timber lands to be ranked during the forest planning process by the degree of cost efficiency. The designation of lands as "unsuitable" for timber management, however, will be not on this cost efficiency analysis but on how much land is needed to achieve the goals of the forest plan, including timber production. This means that lands with a very low or even negative cost-benefit ratio for timber production may be deemed suitable for timber management in upcoming NFMA forest plans. Laws and policies which permit uneconomic timber sales under such vague regulations as these offer scant protection to the remaining roadless lands on our national forests.

We also cannot assume that adequate environmental protection regarding road building and timber management will be provided in upcoming forest plans. The timber industry points to various sections of the NFMA and its detailed implementation regulations as safeguards against the misuse of our national forests. However, as the Committee is aware, this Administration has targeted the detailed NFMA rules for reform and "streamlining". In our view, the changes proposed in

February, 1982 would weaken the "safety net" of environmental protection in the planning process. If these changes are adopted, the rules would simply clear the way for increases in timber cutting with less consideration and concern for wildlife, wilderness, and public participation in resource decision-making.

In conclusion, current law and Forest Service policies do not prevent uneconomic timber sales on the National Forests. Nor can we be assured that upcoming forest plans will prevent unacceptable environmental impacts from resulting from timber sales in sensitive areas. Thus, we continue to oppose road construction subsidies which will lead to increased timbering in remote, roadless areas. As we have noted, the funding structure for timber road construction is among the most loosely controlled of any area in the federal budget. With the timber purchasers' primary financial disincentive to roading economically marginal areas of the national forests effectively removed, there is every reason to believe such roading would accellerate quickly and significantly. We would urge you to scrutinize closely this complex issue and prevent the proposed changes from becoming part of this or any other legislation. Please feel free to call us if you or your staff have any additional questions.

Sincerely,

Peter Kirby
Peter C. Kirby
Coordinator
Forest Management Program

V. Alaric Sample
V. Alaric Sample
Forester
Forest Management Program

STATEMENT BY JAMES BIBLER, VICE PRESIDENT AND GENERAL MANAGER BIBLER LUMBER COMPANY, RUSSELLVILLE, ARKANSAS BEFORE THE SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATERS OF THE COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED STATES SENATE

I am James Bibler, vice-president and general manager of Bibler Lumber Company in Russellville, Arkansas. My firm produces some 40 million board feet of Southern Pine lumber a year, and about half of our raw material comes from the National Forests. As a buyer of Forest Service timber, I can sympathize with the plight of the Western producers and with Senator Hatfield's efforts to solve their problem.

Of course, the collapse of home building has adversely affected all lumber-producing regions. Southern producers, like myself, are going through the worst recession that our industry has faced in fifty years. Many Southern sawmills are closed down or have greatly curtailed their operations. And if the contractual problems of the Western producers should be resolved in a way that would be detrimental to the South, very few of us will survive. That is my concern with the proposed relief legislation which is the subject of this hearing.

I realize that Senator Hatfield's bill has been written in broad general terms with the idea that testimony by affected parties will provide the vehicle for developing the specifics. That is all well and good. But as the legislation develops, great care should be taken in framing the language to head off any haphazard dumping of Federal timber at rock bottom prices on a barren market.

There are some 16 billion board feet of National Forest timber sold but unharvested in Forest Service Region Six. If a substantial portion of this timber should be defaulted or terminated and if it should be returned to the market in an indiscriminate fashion, the effect on Southern lumber producers--most of whom buy their timber from private sources--would be absolutely disastrous.

The volume of sold but uncut National Forest timber in Region Six has escalated because sales have consistently and substantially exceeded harvests in recent years. It seems obvious that to avoid a market glut, should terminations be made legal, there must be some sort of cap or other mechanism which would assure an orderly return of terminated or defaulted sales to the marketplace. And that should be written into the legislation. To say the least, it would be imprudent to increase Forest Service timber sales beyond exisitng levels in a depressesd market.

My concern about the prospect of chaos in the marketplace is further enhanced by the fact that the legislation, in its present form, provides for price modifications or rollbacks. Not only would that cost the Federal government money that it can ill afford to lose, but would also be extremely unfair to those lumber producers who are not among the beneficiaries.

As a buyer of National Forest timber, I have been long impressed and dismayed by the inequities in appraisal methods among the various Forest Service regions. In the Southern Region--Region Eight--the Forest Service uses a transaction evidence method which works to our detriment at times of recesssion, such as we are suffering now. In contrast, the residual value method utilized in the West has resulted in lower timber prices for producers in that region than we are paying in the South. I think that from both standpoints of fairness and legality, equity should be restored and that it should be written into the legislation.

In conclusion, I would like to make it absolutely crystal clear that I bear no malice to the Western producers. I know how great their problems are and wish them the best of luck in finding some workable solution. I am also a strong believer in industry unity which is essential to the easing of crises now facing both regions--West and South. If the legislation can be drafted in a form that will give contractual relief to the West, and which will also preclude indiscriminate dumping of timber and dislocation of regional markets while creating equity among Forest Service regions, then I am all for it.

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Concluding Report On
FOREST SERVICE TIMBER SALE CONTRACTS IN CALIFORNIA
May 28, 1982

Inflated operating costs and sharply reduced demand for lumber have made many contracts to buy Federal timber economically inoperable. To determine the extent of the problem in California, a survey was initiated last month. Preliminary findings were given in an interim report, issued April 30, 1982. They suggested all such contracts were inoperable for the operator of average efficiency in the first quarter of 1982. The completed survey, involving 366 contracts and 3,736 million board feet of uncut timber, confirms the preliminary findings.

The causes of the problem and the potential social consequences were touched upon in the interim report. It included a summary of a Forest Service study and a description of timber sales offered and bid in the first quarter of this year. The complexities of contract evaluation were described along with the current survey method and the preliminary results. Such information will not be repeated here.

This report will summarize the findings of the completed survey, provide some additional background information and suggest in general terms the policy question to be resolved.

Approximately 60 percent of the uncut timber under Forest Service contracts in California was included in the survey. About 40 mills and 20 purchasers were involved in the sample. The basic data were compiled from Forest Service reports for each contract by cooperating purchasers. Their voluntary help made the survey feasible. It required some effort and is appreciated. Each contract report was examined and corrections were made in some cases before the data were compiled by national forests. To assure a complete survey for those operations reporting, the reported contracts were compared with contracts named by Timber Data Company of Eugene, Oregon in its December 31, 1981 report "Volume Under Contract - USDA Forest Service, Region 5." As a result of this comparison, some additional reports were requested and received for overlooked contracts. All reports received were included in the sample.

SURVEY RESULTS

The situation of California purchasers of national forest timber is believed to be well represented by the survey results summarized in Table IV. (Tables I, II and III are in the interim report.) If the Timber Data Company report is used as a standard, close to 90 percent of the total volume under contract on the Sequoia National Forest and 85 percent of that on the Sierra were included in the survey. The weakest samples were on the Modoc (26 percent) and the Mendocino (38 percent). Fifty percent or more of the contract volumes were included for the Eldorado, Klamath, Lassen, Sequoia, Shasta-Trinity, Sierra, Six Rivers, Stanislaus and Tahoe.

Not one of the 366 contracts reviewed had an opportunity for the operator of average efficiency to break even in the first quarter of 1982. The average would be $236 per thousand board feet (MBF) short of a no-loss position. The best contract had only 2,867 MBF remaining and a deficit of $1.36 per MBF, about 2 percent of average product prices. For all of the contracts, average operating costs of $295 and stumpage charges of $222 per MBF would be offset by only $281 in product prices.

Even if no charge were made for the timber, the average purchaser would lose money under the average contract and current abnormal market

TABLE IV - SAMPLE OF FOREST SERVICE TIMBER SALE CONTRACTS IN CALIFORNIA BY NATIONAL FOREST

Remaining volume and 1st quarter 1982 stumpage rates by time remaining. Percentage of pine* and true fir*, current product selling values, production costs and margins for operator of average efficiency. All on a log scale basis.

		VOLUME, MBF			AV. STUMPAGE RATE #			PERCENT		AVERAGES			
NATIONAL FOREST	Con-tracts	Total	Less Than 3 Years	3 Years Plus	All	Less Than 3 Years	3 Years Plus	* Pine	Fir	Sell. Value	Prod't'n Cost	Margin	Margin ÷ Sell.V.
ELDORADO	22	245,645	151,337	94,308	225.63	230.77	217.37	46	35	289.47	261.26	-197.42	- .682
INYO	1	9,919	-	9,919	122.26	-	122.26	82	18	317.14	241.06	- 46.18	- .146
KLAMATH	43	453,420	145,803	307,617	260.50	148.39	313.63	25	20	306.42	336.15	-290.04	- .947
LASSEN	28	346,734	160,857	185,877	275.01	263.62	284.86	56	39	275.29	261.74	-261.46	- .950
MENDOCINO	11	122,022	48,172	73,850	237.06	172.88	278.93	38	6	278.98	309.82	-267.90	- .960
MODOC	5	63,013	36,621	26,392	320.70	326.58	312.55	72	22	278.03	259.61	-302.28	-1.087
PLUMAS	21	296,065	127,294	168,771	268.74	169.13	343.87	40	45	276.40	281.99	-274.33	- .993
SEQUOIA	38	245,962	89,031	156,931	65.82	62.40	67.76	33	58	249.62	286.12	-102.32	- .410
SHASTA	22	216,127	35,364	180,763	245.72	148.20	264.80	41	35	294.47	283.27	-234.52	- .796
SIERRA	26	345,849	67,636	278,210	172.48	115.41	186.36	32	55	267.49	276.49	-181.96	- .682
SIX RIVERS	31	307,671	106,517	201,154	290.02	245.97	313.35	12	7	309.92	349.55	-329.65	-1.064
STANISLAUS	26	259,755	168,145	91,610	127.89	142.93	100.30	43	36	288.17	277.83	-117.55	- .408
TAHOE	42	444,134	227,506	216,628	176.10	160.31	192.70	30	56	250.71	277.93	-203.32	- .811
TRINITY	50	379,289	186,126	193,163	267.24	240.63	292.89	33	8	294.06	324.76	-297.94	-1.013
ALL	366	3,735,605	1,550,409	2,185,196	222.13	187.61	246.62	36	35	281.05	294.72	-235.80	- .839

*Excludes Lodgepole Pine & Douglas Fir

#Without considering Road Costs

conditions. The stumpage rates are the most accurate part of the survey, since they were calculated in accord with contract provisions. Older contracts--generally those with least time remaining--were bid in less inflationary times and might be expected to have the best chance for economical operation. However, as Table V shows, even these contracts are beyond reach of any hoped-for market recovery for the operator of average efficiency. The contracts on the Sequoia National Forest were the only ones with stumpage charges averaging less than $100 per MBF. They have the largest share of low-valued true fir (58 percent) and are deficit by 41 percent of the price of the products. The interim report's Table I showed $66.37 as the average bid rate for 20 sales (with less low-value fir) made in the first quarter of 1982.

Product selling values in Forest Service appraisal summaries were adjusted for each species in each contract to develop a weighted average for the contract as of early 1982. The adjustments were made with factors shown in Appendix B, prepared from the lumber price indexes of the Western Wood Products Association. Note that in the lower-valued dollars of 1982, lumber prices are only about 75 percent of those in 1979. The change in the market will be considered again later in this report. The lowest selling values are on the Sequoia, Tahoe and Sierra, where over half the contract volumes are in true firs.

A big part of the problem has been the increase in production costs. Total operating costs have doubled in the past six years. Figure 1 shows data from the Forest Service's review of operators' records. The dotted and dashed lines were drawn to prepare adjustment factors (See Appendix B.) used to bring Forest Service appraised operating costs for each contract to the first quarter of 1982. Operating costs are lowest on the Modoc, Lassen and Eldorado and highest on the Six Rivers, Trinity and Klamath. Special logging requirements to meet difficult conditions contribute to higher costs.

This analysis has been made without considering the cost of constructing permanent roads, because such costs become "Purchaser Credit" used to pay stumpage charges. However, a portion of stumpage charges—"Base Rates"--must always be paid in cash, and some contracts are without sufficient value (stumpage charges) above Base Rates to offset earned Purchaser Credit. Further, Forest Service appraisers give no recognition to inflation in road construction costs beyond the mid term of the contract. When each of these considerations are taken into account, one fourth of the 366 contracts have additional costs not shown in Table IV. The additional costs range from a few cents to more than $120 per MBF. Three contracts had additional road costs over $50, but nearly all the remainder had additional costs of less than $20 per MBF. An average figure for all contracts was not calculated, because it would have little meaning.

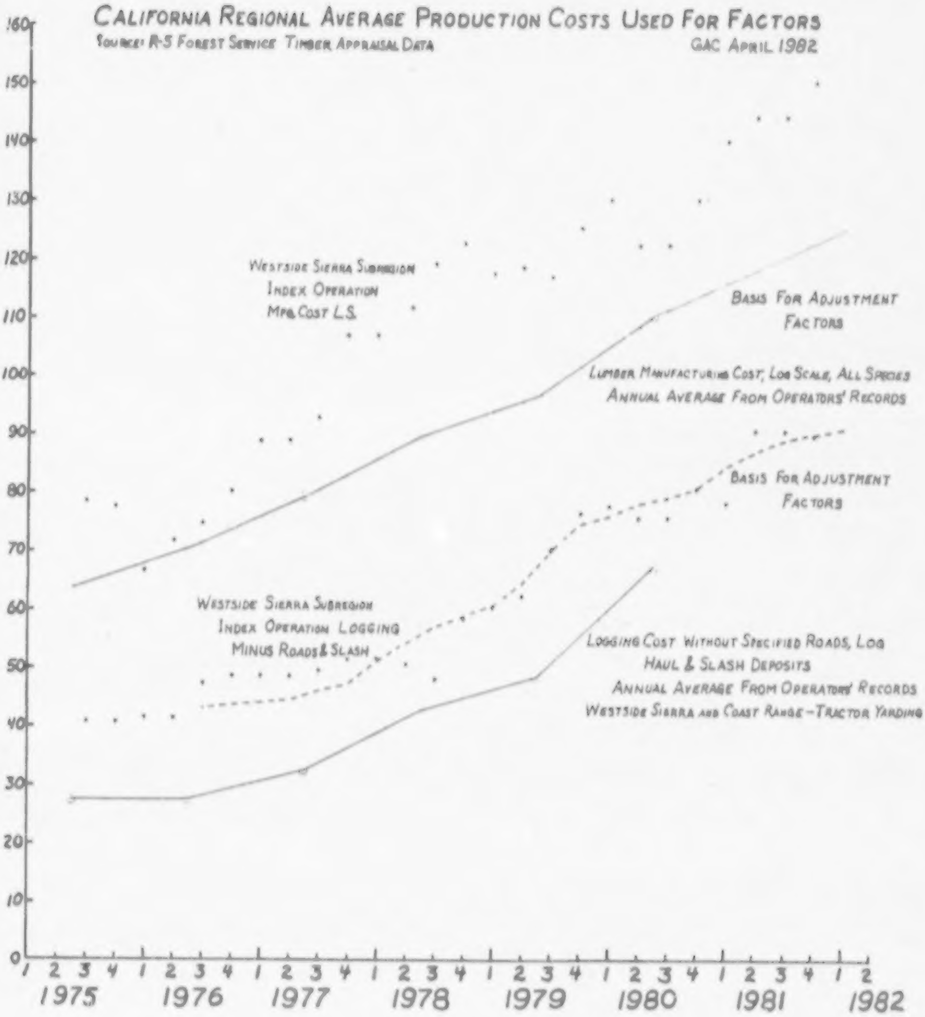
As emphasized in the interim report, these results are for the operator of average efficiency. The situation of individual purchasers will vary with their ability to serve special markets or surpass others in efficiency.

WERE CONTRACTS EVER OPERABLE?

After release of the interim report, a thoughtful reviewer wrote:

> "Your preliminary results are most interesting, but not surprising. On page 8 you mention that 'nearly all such...contracts were economically inoperable for the operator of average efficiency in the first quarter of 1982.' I cannot disagree with you. However, with the approach you have used, can you show these same contracts

FIGURE 1



CALIFORNIA REGIONAL AVERAGE PRODUCTION COSTS USED FOR FACTORS

SOURCE: R-5 FOREST SERVICE TIMBER APPRAISAL DATA

GAC APRIL 1982

as being economically operable for the operator of average efficiency at any time during the life of the individual contract?"

As noted earlier, some contracts were close to break even in the first quarter of 1982. However, to answer the question more fully, a review was made of the data for all contracts bid in 1976 and the first quarter of 1977. The latter was added to give a sample of good size. A few of these contracts, reappraised by the Forest Service for contract extensions or modifications for environmental reasons, were dropped as unsuitable. The remaining 23 contracts originally included nearly 362 million board feet on ten national forests and had about 176 million feet remaining at the time of the survey. They had substantially more true fir than the average in Table IV, but the pine was also up a little; their shares of the total volume were 42 and 39 percent respectively. Half of the purchasers in the total survey had contracts in this group. Other data are shown in Table V.

TABLE V - 1979 & 1982 EVALUATIONS OF CONTRACTS BID IN 1976 & EARLY 1977
Averages per MBF for 23 contracts weighted by 361,783 MBF.

TIME CONTRACTS EVALUATED	PRODUCT VALUE	PRODUCTION COSTS	STUMPAGE RATE	MARGIN	MARGIN ÷ VALUE
2nd QUARTER 1979	372.03	209.24	174.45	- 11.66	.031
1st QUARTER 1982	256.86	268.83	153.33	-165.30	.644

The 1976 and early 1977 period was near the beginning of a strong market recovery, as shown in Figure 3, which will be discussed later. It might be concluded that for some sales made then the improvement in the market did not continue quite long enough. There were, however, other contributions to the current difficulties. Increasing costs of production have already been noted.

Another important factor was the delay in operating under many of these contracts--including some with positive margins in 1979--to salvage timber killed during a major drought or by forest fires. The Forest Service reported 9.6 billion board feet of drought-related mortality on commercial forest land in 12 national forests in California in 1976-79, including 5.5 billion board feet in the last half of 1977 and the first half of 1978. Time was added to the termination dates of existing contracts if the holders would buy and harvest such dead and dying timber before it deteriorated. Nearly 2 billion board feet of such timber was offered and purchased.

SOME CAUSES OF THE PROBLEM

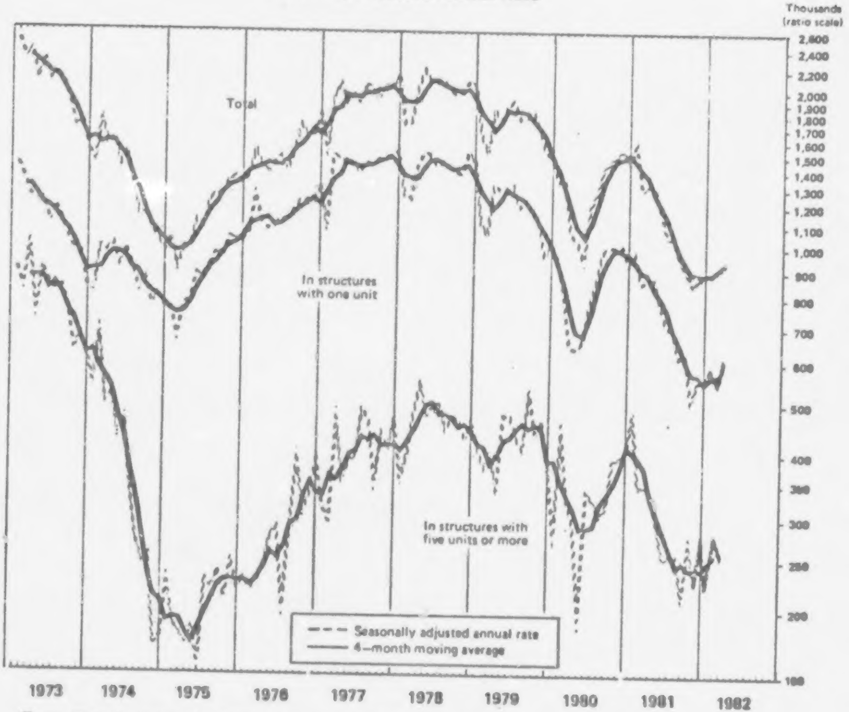
This review of the salvage problem suggests the one paragraph in the interim report dealing with the complex causes of the current problem was inadequate and some enlargement and documentation may be of value.

An obvious beginning point is the change in the number of new housing units started, since housing has provided the largest element of the market for softwood lumber. Figure 2 shows the pattern of private starts over the most recent 9+ years. (Publicly-owned housing starts have averaged less than one percent of private starts over the past 10 years.)

In 1972, there were 2,356,600 private units started, the highest annual total ever. The annual rate of starts in January 1982 was 895,000. In February of this year, the annual rate was 953,000; this was 26 percent below February 1981.

FIGURE 2

NEW PRIVATE HOUSING UNITS STARTED
Seasonally Adjusted Annual Rate



Total: Total includes units started in structures with two to four units.

U. S. Department of Commerce
BUREAU OF THE CENSUS

Housing starts are among several factors presented in Figure 3 to show changes in the softwood lumber market and production costs since the deep housing recession that its lowest point in 1975. Excluding the present recession, 1975 was the worst housing in the past 20 years. (See Appendix C.) It would appear to be a good reference in seeking a better view of the current situation.

The data in Figure 3 are percentages of 1975 experience. Where costs and prices are presented, they were converted to 1975 dollars (using the Bureau of Labor Statistics Producer Price Index) before they were divided by the 1975 amounts.

The total of all housing starts in 1981 was 94 percent of the low 1975 level. The annual rate last February was near 81 percent of starts in 1975.

U. S. consumption of softwood lumber in 1981 has been estimated at 29,844 million board feet by the U. S. Department of Commerce, according to the International Trade Commission (I.T.C.). (See Appendix D.) This is 118 million feet less than 1975 consumption.

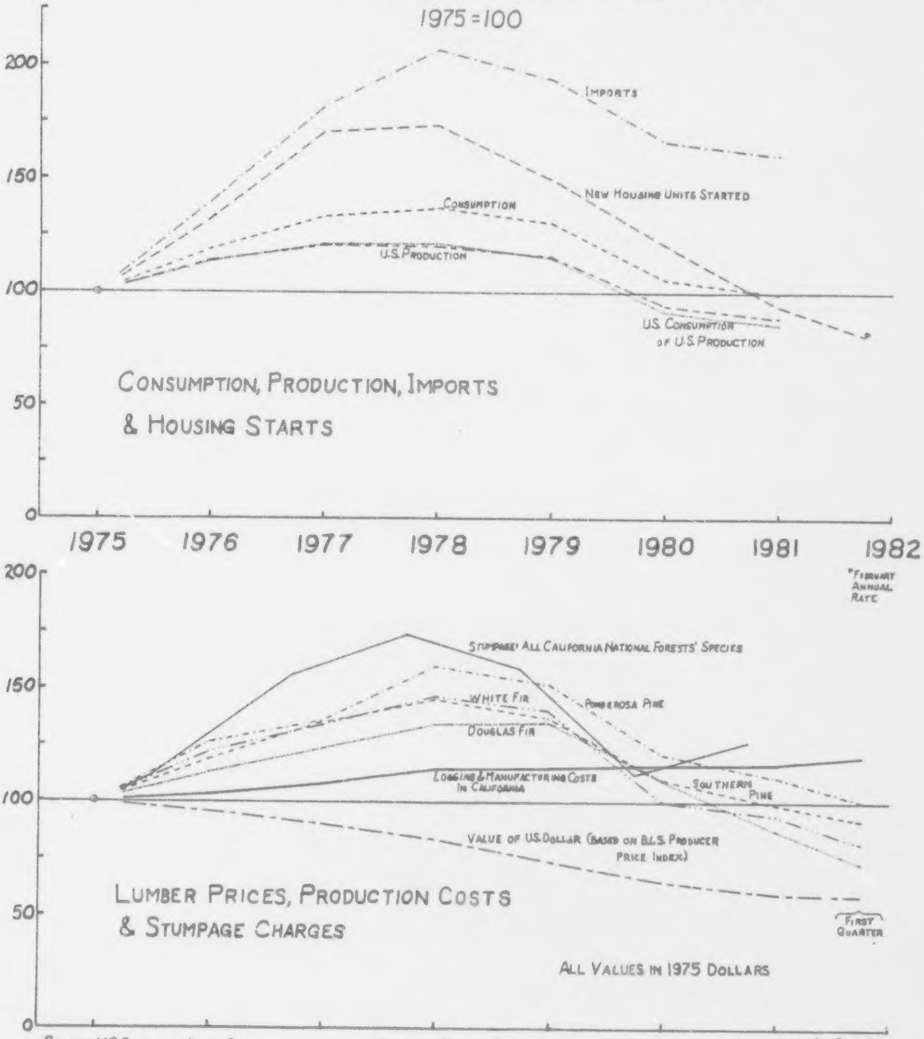
The I.T.C. also reports preliminary National Forest Products Association estimates of U. S. production of softwood lumber in 1980 at 24.3 billion feet and in 1981 at 22.7 billion feet, compared to the 1975 output of 25.7 billion feet. U. S. Consumption of U. S. produced softwood lumber in 1980 apparently dropped at 92 percent of the 1975 experience and in 1981 to less than 86 percent.

Imports of softwood lumber is the only factor in the top graph in Figure 3 that is currently above 1975 experience. Even in the current recession, the U. S. is importing 60 percent more softwood lumber from Canada than it did in 1975. As mentioned in the interim report, the

FIGURE 3

SOFTWOOD LUMBER CHANGES SINCE 1975

1975=100



SOURCE: U.S. BUREAU OF LABOR STATISTICS
U.S.D.A. FOREST SERVICE
U.S. INTERNATIONAL TRADE COMMISSION
U.S.D.C. BUREAU OF THE CENSUS
NATIONAL FOREST PRODUCTS ASSOCIATION
WESTERN WOOD PRODUCTS ASSOCIATION

G. CRAIG
MAY 1982

Canadians have a different approach to the sale of government timber than that used in the United States. The two approaches are largely the product of different circumstances and objectives.

Changes in lumber prices and operating costs since 1975 are shown in the bottom half of Figure 3. The most consistent change has been the upward rise in operating costs. Based on data collected from operators by the Forest Service and the extrapolation shown in Figure 1, logging and manufacturing costs early in 1982 were 20 percent higher than in 1975 when measured in dollars of the same value. The change in value of the dollar is also shown on the graph--a decrease of 42 cents from 1975 to the first quarter of 1982.

Charges for national forest stumpage in California increased sharply until fiscal year 1978. The graph shows actual rates of payment for timber harvested, not rates bid for timber to be cut in the future. The stumpage charge line has different base points from the other data, because it is on a fiscal year basis. The 1975-77 points differ, because the government changed the time of the fiscal year. The drops in relative charges from fiscal year 1978 to 1979 and 1980 may reflect lower rates for salvage timber, attempts to cut least-cost timber when prices dropped and downward escalation of rates under timber sale contracts. However, the 1980 average was still 12 percent higher than in 1975, and the 1981 average rate approached a 27 percent increase over payments per MBF in the base year.

It is from product prices, of course, that these increased costs must come. Of the three principal California species, however, Ponderosa pine is the only one in the first quarter of 1982 with prices not substantially below the depressed 1975 level. Ponderosa pine prices were less than one percent above, according to the Western Wood Products Association (WWPA) index when converted to 1975 dollars. Data from the same source show white fir prices at the same time were nearly 18 percent below 1975 and Douglas fir-Larch off 22 percent.

Douglas fir data in the graph are from the Bureau of Labor Statistics (B.L.S.) and were down 27 percent in 1982. The problem is nationwide. The B.L.S. index for southern pine lumber was down 8 percent in the first quarter of 1982 when compared to 1975 in constant dollars.

OUTLOOK & POLICY QUESTION

In speculating about the significance of these data, it might initially be assumed that this is the low point in the market and a recovery will occur, similar to 1976-77. In those two years, in constant dollars, the selling values of Ponderosa pine, white fir and Douglas fir-Larch lumber all increased about 35 percent, according to WWPA data. (The B.L.S. index for Douglas fir increased 24 percent.) At the same time, production costs went up 8 percent and stumpage charges increased 33 percent.

When the data for the operator of average efficiency and current contracts covered by the survey reported in Table IV are adjusted by these percentages, the 1984 results in early 1982 dollars are: product selling value, $379; production costs, $318 and stumpage rates averaging $300. The deficit for the average operator would be at $239--close to today's margin. Under such conditions, the British Canadian Forest Service would charge about $23 per MBF for stumpage.

Obviously, today's conditions differ from those in 1975. The importance of imports from Canada has increased greatly and the outlook for housing in the short term is less promising. As shown in Appendix E, a recent survey of 400 economists resulted in findings that the economy is still in recession and there will be a slow recovery in housing.

With the Federal government owning over half of the softwood sawtimber on commercial forest lands in the United States (over 60 percent in California), its policies have been and will be a major factor in the welfare of dependant industries (including housing) and dependant communities. According to law, the national forests are in part to:

*"furnish a continuous supply of timber for the use and necessities of citizens of the United States" (16 U. S. C. 475) with "due consideration" of the relative values of the various resources (16 U. S. C. 529).

*achieve and maintain in perpetuity a high-level annual or regular periodic output of timber and other resources without impairment of the productivity of the land. (16 U. S. C. 531)

*"use all practicable means and measures...in a manner calculated to foster and promote the general welfare, to create and maintain conditions under which man and nature can exist in productive harmony, and fulfill the social, economic and other requirements of present and future generations of Americans." (42 U. S. C. 4331)

Prompt government action appears dictated when these obligations under law are considered along with the government's past contributions to the problem. A large number of inoperable timber contracts have limited time and no prospects of becoming operable. Without government action it is reasonable to expect the threat of more business failures and more injury to dependant communities will become a reality.

Public Law No. 38 of the 74th Congress authorized in the public interest the cancellation of national forest timber sale contracts without penalty, where application was made within one year.

The policy question today is to what extent the government should go in relieving timber purchasers of their obligations under these contracts. Not the least of justified options is to recognize that for various reasons the system has failed, it is time for contract cancellations without penalty and a new start, as the Congress did in 1935.

George A. Craig

George A. Craig

TABLE I - ADJUSTMENT FACTORS FOR SELLING VALUE CHANGES TO FIRST QUARTER OF 1982 FROM CALENDAR QUARTER OF BID BY SPECIES

YEAR & QUARTER OF BID	PP/JP	S /WWP	WF/RF	DF	IC	LPP
1976-1	1.3730	1.5153	1.1641	1.1275	1.2340	1.1098
2	1.2977	1.4046	1.1055	1.0832	1.1018	1.0684
3	1.3058	1.4195	1.0681	1.0205	1.1210	1.0311
4	1.2505	1.3692	1.0645	0.9834	0.9717	1.0081
1977-1	1.1790	1.3013	0.9837	0.9170	1.1040	0.9756
2	1.1376	1.2551	0.9643	0.8975	1.1449	0.9755
3	1.1413	1.2912	0.9023	0.8380	1.0460	0.8359
4	1.1071	1.2656	0.9123	0.8497	0.9453	0.8384
1978-1	0.9829	1.1126	0.8344	0.8145	0.8817	0.7722
2	0.8844	0.9565	0.7891	0.7765	0.8448	0.7516
3	0.8807	0.9247	0.7953	0.7489	0.8109	0.7803
4	0.8620	0.9351	0.7754	0.7235	0.6977	0.7650
1979-1	0.8202	0.8993	0.7795	0.7261	0.6687	0.7603
2	0.7956	0.8543	0.7328	0.6963	0.6424	0.7385
3	0.8566	0.9344	0.7062	0.6772	0.6898	0.7288
4	0.9091	0.9741	0.7728	0.7106	0.6943	0.7866
1980-1	0.9151	0.9666	0.8338	0.8073	0.8081	0.8227
2	1.0033	1.0119	0.9762	0.9317	0.8701	0.9778
3	0.9580	0.9974	0.8765	0.8147	0.8991	0.8694
4	0.8616	0.9000	0.8436	0.8038	0.8665	0.8653
1981-1	0.8355	0.8577	0.8684	0.8318	0.8658	0.8552
2	0.8724	0.8873	0.8471	0.8286	0.8649	0.8358
3	0.9252	0.9394	0.8764	0.8588	0.8380	0.8589
4	1.0110	1.0318	0.9911	0.9721	0.8848	0.9715

APPENDIX B

TABLE II - ADJUSTMENT FACTORS FOR PRODUCTION COST CHANGES TO FIRST QUARTER OF 1982 FROM CALENDAR QUARTER OF BID

YEAR & QUARTER OF BID	COST FACTORS	
	LOGGING	MFG.
1976-1	2.116	1.847
2	2.092	1.804
3	2.068	1.755
4	2.045	1.702
1977-1	1.978	1.623
2	1.936	1.606
3	1.896	1.557
4	1.838	1.508
1978-1	1.784	1.461
2	1.685	1.417
3	1.597	1.384
4	1.556	1.358
1979-1	1.504	1.334
2	1.411	1.311
3	1.300	1.276
4	1.222	1.233
1980-1	1.197	1.192
2	1.167	1.153
3	1.152	1.123
4	1.130	1.101
1981-1	1.077	1.079
2	1.046	1.058
3	1.023	1.021
4	1.011	1.019

SOURCE: USDA FOREST SERVICE, REGION FIVE, APPRAISAL DATA

TABLE III - ADJUSTMENT FACTORS FOR PURCHASER CREDIT (ROAD COST) CHANGES TO FIRST QUARTER 1982 FROM MID POINT ORIGINAL CONTRACT TERM (B)

YR. & QUARTER OF MID POINT	ADJUSTMENT FACTOR
1978-1	1.500
2	1.480
3	1.460
4	1.440
1979-1	1.415
2	1.390
3	1.365
4	1.340
1980-1	1.310
2	1.280
3	1.250
4	1.220
1981-1	1.175
2	1.130
3	1.085
4	1.040

SOURCE: USDA FOREST SERVICE REGION FIVE ENGINEERING
ROUGH ESTIMATES BASED IN PART ON CALTRANS DATA

MAY

Housing Starts

FEBRUARY 1982

U.S. Department of Commerce
BUREAU OF THE CENSUS

C20-82-2
Issued April 1982

Table 1. NEW HOUSING UNITS STARTED

(In thousands of units. Because of rounding, detail may not add to totals)

Period	Total	Publicly owned	Privately owned										
			Total	In structures with--				Inside SMSA's	Outside SMSA's	Region			
				1 unit	2 units	3 and 4 units	5 units or more			North-east	North Central	South	West
ANNUAL DATA													
1963	1,634.9	31.8	1,603.2	1,012.4	53.9	(NA)	(NA)	1,125.6	477.8	261.0	329.7	586.2	426.0
1964	1,561.0	32.1	1,528.8	970.5	53.9	56.5	610.0	1,079.5	449.0	254.5	339.7	577.8	356.9
1965	1,509.7	36.9	1,472.8	963.7	50.8	35.9	422.5	1,011.9	460.9	270.2	361.5	[illegible]	264.3
1966	1,195.8	30.9	1,164.9	778.6	36.6	26.5	323.1	787.7	377.1	206.5	288.3	472.5	197.6
1967	1,321.9	30.1	1,291.6	843.9	41.4	30.2	376.1	907.9	383.7	214.9	337.1	519.5	220.1
1968	1,545.4	37.8	1,507.6	899.4	46.0	34.9	527.3	1,096.4	411.2	226.8	368.6	618.5	293.7
1969	1,499.5	32.8	1,466.8	810.6	43.0	42.0	571.2	1,078.7	388.0	206.1	348.8	588.4	323.5
1970	1,469.0	35.4	1,433.6	812.9	42.4	42.4	535.9	1,017.9	415.7	217.9	293.5	611.6	310.5
1971	2,084.5	32.3	2,052.2	1,151.0	55.1	65.2	780.9	1,501.6	550.6	263.8	434.1	868.7	485.6
1972	2,378.5	21.9	2,356.6	1,309.2	67.1	74.2	906.2	1,720.4	636.2	329.5	442.8	1,057.0	527.4
1973	2,057.5	12.2	2,045.3	1,132.0	54.2	64.1	795.0	1,495.4	549.9	277.3	439.7	899.4	428.9
1974	1,352.5	14.8	1,337.7	888.1	33.2	34.9	381.6	922.5	415.3	183.2	317.3	552.8	284.5
1975	1,171.4	10.9	1,160.4	892.2	34.5	29.5	204.3	760.3	400.1	149.2	294.0	442.1	275.1
1976	1,547.6	10.1	1,537.5	1,162.4	44.0	41.9	289.2	1,063.5	474.1	169.2	400.1	568.5	399.6
1977	2,001.7	14.6	1,987.1	1,450.9	60.7	61.0	414.4	1,377.3	609.8	201.6	464.6	783.1	537.9
1978	2,036.1	15.8	2,020.3	1,433.3	62.2	62.8	462.0	1,432.1	588.2	200.3	451.2	823.7	545.2
1979	1,760.0	14.8	1,745.1	1,194.1	56.1	65.9	429.0	1,240.6	504.6	177.9	349.2	747.5	470.5
1980	1,312.6	20.4	1,292.2	852.2	48.8	60.7	330.5	915.6	376.7	125.4	218.1	642.7	306.0
1981r	1,100.3	16.1	1,084.2	705.4	38.2	52.9	287.7	759.6	324.5	117.3	165.2	561.6	240.0
AVERAGE RELATIVE STANDARD ERROR OF ANNUAL ESTIMATES													
Percent	3	(S)	2	2	6	5	3	1	4	5	6	3	2
MONTHLY DATA													
1980: January	73.8	0.8	73.1	40.3	3.7	3.4	16.7	56.2	16.9	5.6	5.6	39.7	22.2
February	80.8	0.9	79.9	49.0	2.5	2.8	24.8	59.9	20.0	2.5	7.7	40.6	25.1
March	86.8	1.7	85.1	51.7	4.1	3.7	25.5	63.9	21.2	7.4	11.8	44.6	21.3
April	96.8	0.5	96.2	61.5	2.7	6.6	25.4	66.3	30.0	9.7	19.0	48.6	19.2
May	93.0	1.3	91.7	66.9	4.0	4.4	18.6	62.0	29.7	11.9	14.8	43.9	21.0
June	117.7	1.4	116.4	76.9	5.3	4.2	32.0	82.0	34.4	13.8	20.0	58.0	24.6
July	121.6	1.4	120.1	85.6	4.0	3.7	26.9	82.6	37.5	13.0	20.5	58.9	27.9
August	131.7	1.8	129.9	92.0	4.5	6.9	26.5	90.6	39.3	13.9	20.9	62.1	32.6
September	139.0	0.7	138.3	93.0	8.4	6.6	30.3	94.3	44.0	17.1	30.6	59.6	30.9
October	153.7	1.0	152.7	97.3	4.9	8.0	42.2	104.8	47.9	12.1	33.9	74.4	32.3
November	113.5	0.6	112.9	71.2	4.3	6.6	30.7	80.9	32.0	9.6	24.4	54.2	24.7
December	96.3	0.4	95.9	56.0	4.5	3.7	31.1	70.1	25.8	9.2	12.8	52.0	21.9
1981: January	85.2	0.7	84.5	48.0	3.3	5.6	27.6	65.1	19.4	5.5	8.3	52.2	18.5
February	72.5	0.5	71.9	48.0	2.5	3.4	18.2	54.6	17.4	2.8	8.2	44.7	16.3
March	108.9	1.1	107.8	70.5	4.1	4.8	28.4	77.7	30.0	8.5	15.0	62.2	22.1
April	124.0	1.0	123.0	81.6	3.7	5.0	30.7	89.4	33.6	10.3	18.5	65.8	28.4
May	110.6	0.7	109.9	73.8	5.2	4.9	26.0	78.2	31.7	12.0	19.2	53.5	25.3
June	107.0	1.2	105.8	72.5	3.5	4.9	24.8	71.8	33.9	11.2	18.2	51.9	24.5
July	101.0	1.2	99.9	69.5	3.6	4.4	22.4	65.9	34.0	16.0	17.2	44.1	22.6
August	87.3	1.0	86.3	57.0	3.3	3.6	22.4	58.5	27.8	11.6	14.6	42.0	18.1
September	90.9	6.8	84.1	58.3	2.6	3.2	20.0	53.5	30.6	12.5	13.0	41.7	17.4
October	88.1	0.9	87.2	49.9	2.9	5.5	28.9	57.5	29.7	13.0	18.3	36.1	20.9
November	64.9	0.3	64.6	40.1	3.0	4.7	17.9	43.5	21.1	7.6	10.4	35.2	11.4
Decemberr	59.7	0.6	59.1	34.1	1.8	3.1	20.1	44.2	14.9	7.8	6.6	32.2	12.7
1982: Januaryp	48.2	0.4	47.8	29.7	1.3	3.2	13.6	35.2	12.6	2.6	3.2	32.4	9.6
Februaryp	52.0	0.7	51.3	31.0	1.7	3.2	15.4	39.2	12.1	3.7	2.3	36.3	9.0
March													
April													
May													
June													
July													
August													
September													
October													
November													
December													
Year to date:													
1981	157.7	1.2	156.5	96.0	5.6	8.9	46.0	119.7	36.8	8.3	16.5	96.9	36.8
1982	100.3	1.0	99.1	60.7	3.0	6.5	29.0	74.6	24.7	6.4	5.5	68.7	18.5
Percent change	-36	-14	-37	-37	-46	-27	-37	-38	-33	-23	-62	-29	-50
RELATIVE STANDARD ERROR OF MONTHLY ESTIMATES													
Preliminary.....(percent)..	5	(S)	3	3	18	19	10	6	15	16	26	6	9
Revised¹.........(percent)..	5	(S)	3	3	18	18	9	6	13	13	14	6	8

- Represents zero. NA Not available. pPreliminary. rRevised. X Not applicable. S Less than 50 units or 0.5 percent.

¹Average relative standard errors are shown for revised estimates.

APPENDIX C

CONDITIONS RELATING TO THE IMPORTATION OF SOFTWOOD LUMBER INTO THE UNITED STATES

Report to the Senate Committee
on Finance on Investigation
No. 332-134 Under Section 332
of the Tariff Act of 1930

Table 1.—Softwood lumber: U.S. production, imports for consumption, exports of domestic merchandise, and apparent consumption, 1972-81

Year	Production 1/	Imports	Exports	Apparent consumption	Ratio of imports to apparent consumption
	Million board feet				Percent
1972	30,873	8,850	1,151	38,572	22.9
1973	31,289	8,871	1,742	38,418	23.1
1974	27,193	6,693	1,524	32,362	20.7
1975	25,711	5,617	1,366	29,962	18.7
1976	29,343	7,829	1,578	35,594	22.0
1977	30,987	10,232	1,426	39,793	25.7
1978	2/ 30,899	11,634	1,346	41,187	28.2
1979	2/ 29,879	10,922	1,729	39,072	28.0
1980	2/ 24,335	9,383	1,967	31,751	29.6
1981	2/ 22,710	9,029	1,895	29,844	30.3

1/ National Forest Products Association (NFPA), Fingertip facts and figures, February 1982.

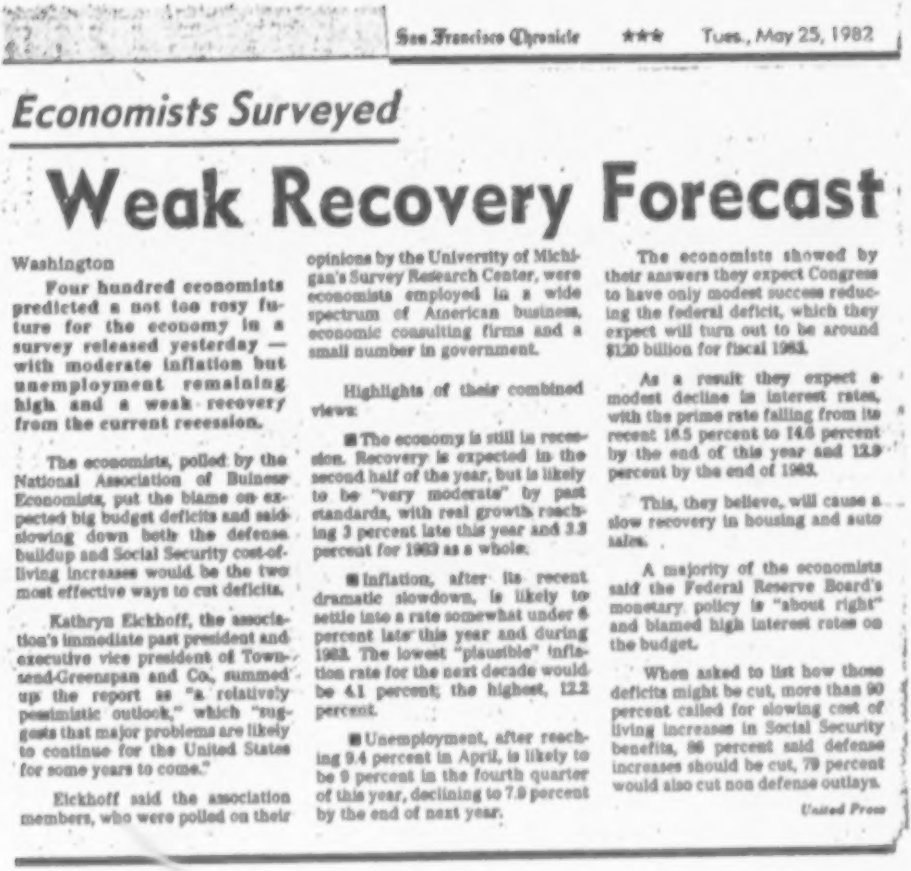
2/ Subject to revision by the NFPA.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

APRIL 1982

APPENDIX D

United States International Trade Commission / Washington, D.C. 20436



San Francisco Chronicle ★★★ Tues., May 25, 1982

Economists Surveyed

Weak Recovery Forecast

Washington

Four hundred economists predicted a not too rosy future for the economy in a survey released yesterday — with moderate inflation but unemployment remaining high and a weak recovery from the current recession.

The economists, polled by the National Association of Business Economists, put the blame on expected big budget deficits and said slowing down both the defense buildup and Social Security cost-of-living increases would be the two most effective ways to cut deficits.

Kathryn Eickhoff, the association's immediate past president and executive vice president of Townsend-Greenspan and Co., summed up the report as "a relatively pessimistic outlook," which "suggests that major problems are likely to continue for the United States for some years to come."

Eickhoff said the association members, who were polled on their opinions by the University of Michigan's Survey Research Center, were economists employed in a wide spectrum of American business, economic consulting firms and a small number in government.

Highlights of their combined views:

- The economy is still in recession. Recovery is expected in the second half of the year, but is likely to be "very moderate" by past standards, with real growth reaching 3 percent late this year and 3.3 percent for 1983 as a whole.
- Inflation, after its recent dramatic slowdown, is likely to settle into a rate somewhat under 6 percent late this year and during 1983. The lowest "plausible" inflation rate for the next decade would be 4.1 percent; the highest, 12.2 percent.
- Unemployment, after reaching 9.4 percent in April, is likely to be 9 percent in the fourth quarter of this year, declining to 7.9 percent by the end of next year.

The economists showed by their answers they expect Congress to have only modest success reducing the federal deficit, which they expect will turn out to be around $120 billion for fiscal 1983.

As a result they expect a modest decline in interest rates, with the prime rate falling from its recent 16.5 percent to 14.6 percent by the end of this year and 12.9 percent by the end of 1983.

This, they believe, will cause a slow recovery in housing and auto sales.

A majority of the economists said the Federal Reserve Board's monetary policy is "about right" and blamed high interest rates on the budget.

When asked to list how those deficits might be cut, more than 90 percent called for slowing cost of living increases in Social Security benefits, 86 percent said defense increases should be cut, 79 percent would also cut non defense outlays.

United Press

APPENDIX E

NATIONAL WILDLIFE FEDERATION
1412 Sixteenth Street, N.W., Washington, D.C. 20036 202—797-6800

DUPLICATE LETTER

August 27, 1982

Chairman, Subcommittee on Public
  Lands and Reserved Water
Senate Committee on Energy and
  Natural Resources
3204 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

On behalf of the National Wildlife Federation, I am submitting a statement on Timber Sale Contract Modification, and request that it be made part of the permanent record of the August 16 hearing on this issue.

Thank you.

Sincerely,

Jay D. Hair

JAY D. HAIR
Executive Vice President

enclosure

47th ANNUAL MEETING MARCH 18-20, 1983 Regent Hotel, Albuquerque, New Mexico
100% reclaimed paper

NATIONAL WILDLIFE FEDERATION
1412 Sixteenth Street, N.W., Washington, D.C. 20036 202—797-6800

STATEMENT OF ANDY STAHL
ON BEHALF OF THE NATIONAL WILDLIFE FEDERATION
ON TIMBER SALE CONTRACT MODIFICATION
BEFORE THE SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER, SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES

AUGUST 16, 1982

My name is Andy Stahl. I am a consulting forester with the National Wildlife Federation. I want to thank you, Mr. Chairman, for holding hearings on S. 2805, a bill to provide for the orderly termination, extension, or modification of certain contracts for the sale of federal timber, and other purposes.

The National Wildlife Federation is the nation's largest grassroots conservation organization, with affiliates in all fifty states, Guam, Puerto Rico, and the Virgin Islands, and over 4 million members and supporters. Because the Federation has concern for the proper management of the nation's forestland, we welcome this opportunity to present testimony on legislation dealing with the general subject of relief from federal timber sales contracts. Certain proposals for relief from contracts could have deleterious effects on fish, wildlife, recreation, and the economic efficiency of forest management.

Background

The issue of relief from contracts has its roots in the recovery from the 1973 recession in the homebuilding and wood products industries. It was in this period, 1976 to 1978, that the timber sale contracts at issue were made between the authorized agencies (the U.S. Forest Service and the Bureau of Land Management) and the timber purchasers. The recovery in the economy at that time was bold and energetic. By 1978, housing starts had reached near record levels, inflation was high, interest rates still relatively low, and the near-term outlook for lumber appeared excellent.

In addition to the economic factors, the manner in which the federal agencies, most significantly the Forest Service, sell timber was an important aspect of the present problem. Timber is sold to the apparent high bidder (see "Timber Sales Process of U.S. Forest Service," A Report to the Committee on Appropriations, U.S. House of Representatives, April, 1982 for a critical review of the sale process), most often using an oral bidding process. The high bidder need make only minimum deposits, usually in the form of bonds, to secure the contract. Timber is paid for when cut and removed from the forest. Depending on the contract, from three to six years are allowed to remove the timber. Sales of five or six years are the norm in the Pacific Northwest, where over half of Forest Service timber is sold.

The combination of a good outlook for lumber value and timber sale contracts which require little down payment and offer long-term cutting rights permitted purchasers to engage in the most intense speculative bidding ever experienced in federal timber sales. Bids tripled and quadrupled within a few years. The area that experienced the most speculation was the Douglas-fir region of Oregon and

Washington (the area west of the Cascade Range). Timber was bid to more than $800 per thousand board feet (mbf), far above prices ever before seen.

The response of the purchasers to the current recession was generally slow. Bids continued to increase through 1980, while at the same time the amount of timber being logged was decreasing. The combination of increasing bids and decreased logging was the most dramatic sign of speculative bidding.

Relief Granted to Date

Pursuant to the National Forest Management Act, the Chief of the Forest Service has twice elected to grant extensions of contract deadlines to timber purchasers. The first such extension was for a one-year period, while the second allowed an additional two years to complete the contract. Extensions have generally postponed what appeared to be imminent defaults on the part of some purchasers. But, there has been a cost. Businesses and county governments which depend on the prompt and timely operation of timber sale contracts have suffered. Extensions have permitted stockpiling of timber on the stump, up to six years worth of normal cutting in the Pacific Northwest.

Industry Outlooks Vary by Region

The industry is by no means equally affected by high-priced contracts. Most severely hurt are the small to medium-sized firms on the west side of the Cascades in Oregon and Washington. In addition to witnessing the greatest speculative bidding, this area does not have "price indexing" as a contract provision. Price indexing, common throughout most of the country, adjusts the price paid for the timber as it is logged, based on an index of market prices for lumber. Price indexing negates much of the usefulness of speculative bidding, and also provides relief when the market for lumber declines.

East-side purchasers are, therefore, less severely affected by the current recession than are west-side purchasers. East-side purchasers generally experience less competition, having as few as one or two bidders on each sale, while the west-side sales have as many as ten bidders.

Lumber manufacturers in the South are in a different situation. They purchase very little federal timber, relying mostly on private lands for their supply. Yet, their competitive situation is affected by bid prices in the West. The higher the price bid for federal timber in the west, the less competitive the western producers. The South particularly fears a glut of timber on the market which could result from quickly harvesting the uncut timber under contract which has built to record levels in the West.

Position of the National Wildlife Federation

We believe that whatever relief there is should be equitable to all purchasers and producers of lumber. But we do not want to see relief which would be detrimental to the environment, and therefore oppose any of the following provisions:

1. Granting of so-called "ineffective" purchaser road credits which would give timber companies credit for all road

construction costs, including those costs beyond the value of the timber. Environmentally, these lands are often best left undeveloped as they provide valuable wildlife coverage, fisheries, and recreation resources. Roading areas would automatically prevent them from being classified as wilderness areas.

2. Any requirement or direction to construct roads on terminated sales. Roads pose a great threat to the natural environment, causing soil erosion, sedimentation, and air pollution. They disturb the natural habitat of wild animals, as well as impairing the scenic value of an area.

3. New timber sales in roadless areas before terminated sales have been re-sold. The positive environmental effect of re-selling these lands would be the decrease in road construction mileage during the next few years. Selling terminated sales first allows the Forest Service to meet the timber levels established by Congress in a less environmentally damaging manner.

In conclusion, the National Wildlife Federation is cognizant of the economic problems facing the timber industry which led to the introduction of S. 2805 and S. 2818. We hope that our suggestions will be of aid in coming to an environmentally sound resolution of the problem.

Testimony of Starr W. Reed

Simpson Timber Company

to

Subcommittee on Public Lands and Reserved Water

concerning

S. 2805 and H.R. 6913, Bills to Provide for Orderly Federal
Timber Sale Contract Adjustment

S. 2518 A Bill to Provide for Federal Timber
Sale Contract Extensions

Mr. Chairman and Committee Members:

I am Starr W. Reed, Senior Vice-President, Resource Management, for Simpson Timber Company of Seattle, Washington. This testimony is submitted for the record of the hearing held on August 12. Simpson is a mid-sized forest products company involved in forestry, logging and the manufacture of forest products in Washington, Oregon and California. Simpson produces an average of 350 MMBF of logs for manufacture in its West Coast mills. This harvest and consumption is projected to generate approximately 10,500 jobs including direct employment, contractors and suppliers. My primary responsibilities for Simpson include forest management on Company timberlands and assuring an adequate wood supply for our manufacturing facilities from fee-owned timberlands and from purchases of open-market timber.

Under typical operating conditions, 40 percent of Simpson's wood requirement is obtained on the open market. However, Simpson's Albany, Oregon, plywood plant, which directly employs 210 people, relies exclusively on open-market timber. By far the predominent source of this purchased timber is Forest Service and BLM timber sales.

Much federal timber purchased in Washington, Oregon and California in recent years was sold at prices which greatly exceed the value which can be derived through conversion into forest products in today's market. Economic projections further supported by national policy indicate this situation will prevail for many years. A reasonable solution to the problem of non-economic timber sale contracts is vital to Simpson as it is for many West Coast producers. The future of many West Coast federal timber purchasers, their employees and many rural communities dependent on the forest industry rests on the outcome of this issue.

Relief on timber sale contracts has been labeled by some an "industry bail out." We think this is a particularly unfair and prejudicial accusation. The charge impedes constructive resolution of an extremely difficult problem caused by factors totally beyond industry control and not anticipated by anyone. At the time much federal timber now under contract was bid, the federal government's policy had a very stimulative affect on housing and forest products demand. Forecasts for housing were for at least 2.2 million average annual housing starts for the 80's, with the U. S. Forest Service in its 1979 RPA Assessment projecting 2.6 million average annual housing starts for the decade.

Since 1980, however, federal policy influencing housing has shifted dramatically. Banking deregulation, reduced low-income housing subsidy and tight control of money supply have combined to flatten housing and the domestic demand for wood products. Optimistic forecasts in 1982 indicate housing to average 1.5 million starts for the 80's, a far cry from the 2.6 million average forecast by the Forest Service just three years ago. This lower prospect for housing has caused the demand for and value of timber to plummet. Stumpage now sells for one-third to one-fourth the values bid three years ago.

The Forest Service and the Bureau of Land Management wisely granted extensions on existing timber sales which postponed timber sale contract defaults and severe economic dislocation. Likewise, Washington and Oregon, two states with their own substantial timber sale programs, moved recently to grant timber sale relief. The legislatures of both states, despite their own critical revenue shortfalls and charges of "industry bail outs," after analysis of the dilemma, concluded that the long-term public interest of the states would be best served by granting relief in the form of both timber sale terminations and extensions.

In June, 1982, in response to a Congressional request, Robert E. Wolf, Assistant Chief, Environment and Natural Resources Policy Division, Congressional Research Service, submitted analysis of a timber industry legislative proposal for timber sale contract relief. We feel that analysis contains assumptions and conclusions which grossly overstate the public impacts resulting from the proposal. The forest industry has submitted a critique of Mr. Wolf's analysis which addressed most issues.

We believe it is important, however, to underscore one basic and major flaw in Mr. Wolf's response. The analysis assumes the federal government incurs a cost or a loss of revenue as a result of termination and the reoffering of sales contracts. That assumption is incorrect. The fact is, the timber affected is at a price so high much of it will not be harvested and the Treasury will not receive stumpage payment for it. This will then result in massive defaults creating a complex administrative process and prolonged litigation; none of which will benefit the Treasury, the industry or the public.

The states of Washington and Oregon acted to aid their timber purchasers during this crisis. Likewise, the Forest Service and BLM have done what they could administratively to postpone an economic catastrophe. But the need for contract relief cannot be resolved and an orderly resolution of the dilema achieved until Congress acts. We are pleased that that this Committee recognizes this and has agreed to consider Congressional action.

We have reviewed S. 2805 and H.R. 6913 sponsored by Senator Hatfield and Representative Weaver, respectively. The Bills are based on satisfactory concepts; but in our opinion, they contain two features which require amendment.

1. Section Two requires timber purchasers provide evidence of economic hardship to the Secretary of Agriculture or the Secretary of Interior with their petition for contract modification. We urge that this requirement be deleted and that the rules governing contract modifications be prescribed by law. The burden of deciding who qualifies should not be placed on the Secretaries. Qualification for termination and extension should be limited only by time criteria, the volume to be terminated, and condition of the timber sales. A discretionary approach would lead to extreme administrative problems and unwarranted inequities.

2. Subsection (3) in Section Two, which provides for the modification of the purchase price of timber sold, to reflect current market values, should be deleted. This provision again would result in an enormous administrative problem for federal agencies. In addition, it would create controversy and dispute over what constitutes current values. Even after purchase price modifications, sales may not be economically operable. A better and more equitable solution would be to simply allow the purchaser to request and terminate qualifiying sales and then repackage the sale for reoffer at competitive bid which in turn will reflect market value.

3. If Section 4 means that the authority to process termination of a timber sale expires at the end of one year, we recommend amending this provision to incorporate the following concept:

   Contract holders are to notify the appropriate Secretary as to which sales they wish to terminate or modify the contract term within 60 days following publication of the regulations required by this Act. Completion of the termination process for those sales that qualify for termination under the regulations will not occur earlier than one year prior to the expiration date designated in the timber sale contract.

   This type of limitation will require an early decision and commitment, but will provide for both orderly processing of termination requests and the reoffering of the timber volume included in the terminated contract.

As testimony is analyzed, the Committee will surely conclude that more detailed prescriptions are needed to provide clear direction to the Secretaries and to assure equal treatment to all federal timber purchasers. To reach for this, we recommend your study of the draft proposal developed by industry and included in other testimony. A draft copy is attached for reference. This proposal may not be acceptable in total as currently drafted, but it does contain valid and effective provisions relating to contract termination and contract term adjustment.

S. 2518, introduced by Senator McClure, does not provide for contract termination, but it does authorize term adjustments of up to five years at the request of timber sale purchasers. Such adjustments would be limited to sales purchased prior to January 1, 1982, and would be permitted without penalty or payment.

Simpson certainly agrees with Senator McClure in his recognition of need for federal timber sale contract extensions. Extensions on timber sales which are not terminated is absolutely essential to West Coast timber purchasers. Unfortunately, extension alone, as applied to all timber sales, will not resolve the problem. The industry and the market could not possibly absorb the billions of board feet under contract bid at three to four times its current value. It must be recognized that regardless of the final decision on how the need for contract termination is resolved, adequate extension of contracts not terminated must be provided. We differ slightly from Senator McClure's proposal in that we recommend a contract term adjustment of five years for all timber sale contracts that remain in force after the termination process.

As you know, the forest industry is not unanimous on this issue. We are a large, diverse and highly competitive industry. Because of this fact, the burden of excessively priced federal timber does not fall equally on all producers or between regions. Many small and mid-sized producers in West Coast states which are dependent upon federal timber will suffer severe economic injury, if relief is not granted. Some of the producers which rely heavily on their own timberlands and state-owned timber for which relief has already been granted, have little interest in a contract relief program. But there is a concensus among the industry group seriously affected by this problem with agreement by many others in the forest industry.

As you consider this testimony and the testimony of others on timber sale contract relief issue, we ask that you keep in mind that federal timber purchasers requesting relief bid this timber based on federal policies in place at the time. There was no way a prudent purchaser could predict a drastic change in federal policies such as has recently occurred. Timber purchasers are the victims of the changed federal policies and like other contractors should be allowed contract adjustment when the terms and conditions are changed.

We appreciate the opportunity to submit this testimony. I can be available for further discussion or to answer any questions.

Starr W. Reed

STARR W. REED
Senior Vice-President
Resource Management

Draft Legislation Proposed by Timber Industry Representatives - August, 1982

A BILL

To provide for the orderly termination or extension of certain contracts for the sale of federal timber, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled,

Sec. 1. The Secretary of Agriculture for National Forest System lands and the Secretary of the Interior for public lands are authorized to--

(a) terminate contracts for the purchase of timber which were bid prior to January 1, 1982, and for which the conditions in section 2 are met; and

(b) to extend contracts under the conditions stated in section 3.

Sec. 2. (a) (1) A purchaser may terminate a contract pursuant to this Act if the purchaser--

(A) files a written request for termination within 45 days following the concurrent publication of procedures by the Secretaries pursuant to Section 6, specifically identifying each contract for which termination is requested;

(B) agrees to pay the Secretary holding the contract, within 30 days of billing, a sum equal to $3 per 1,000 board feet or equivalent measure for the costs which will be incurred by such Secretary in terminating such contracts and for reoffering the timber terminated for resale, and

(C) agrees to release any claim against the United States arising out of or connected with each contract to be terminated.

(D) If a request for termination made pursuant to clause (A) is denied, a written request for alternative contracts may be filed within fifteen days of receipt of notice of denial.

(E) Payment made pursuant to clause (B) shall be in lieu of any damages, penalties, or claims that such Secretary might otherwise assess.

(2) Contracts to be terminated pursuant to this Act under which no harvest has taken place shall be terminated in full. Contracts to be terminated pursuant to this Act under which harvest has begun, shall be terminated conditionally with the termination becoming final after the purchaser has completed all contractual obligations for the units or a logical portion of a unit on which harvest had begun as determined by the Secretary. All remaining unharvested units covered by contracts also covering such partially harvested units must be terminated. The Secretary need not terminate a contract if he determines that the remaining unharvested units are not representative of all units that were to be harvested on the contract area in terms of species and logging methods.

(3) The Secretary may, in his sole discretion, require the completion of any roads specified in a contract to be terminated and the decking of right-of-way timber.

(4) Purchaser shall be current in all payments and not be in default on a contract at the time of its termination pursuant to this Act.

(5) (A) The volume of timber in contracts to be terminated shall not exceed 40 per centum of the estimated timber volume specified in the purchaser's contracts bid as of April 1, 1982 for timber from National Forest System land and public lands less any volumes cut, removed, and paid for.

(B) In addition to the contracts meeting the condition of subparagraph (A), one contract which was bid prior to January 1, 1982 but after the date of bid of all other contracts to be terminated may be terminated.

(C) The estimated timber volume terminated under subparagraphs (A) and (B) shall not exceed by more than 10,000,000 board feet (or equivalent measure) the 40 per centum limit imposed by subparagraph (A).

(D) Purchasers may, in lieu of the 40 per centum limitation specified in subparagraph (A), terminate contracts having an aggregate volume of up to 15,000,000 board feet or terminate one contract.

(b) (1) For each contract meeting the conditions in subsection (a) the Secretary shall set-off cash deposits, and purchaser credit or the timber sale appraisal allowance for the value of completed roads against the amount payable to the applicable Secretary under subsection (a) (1) (B), applying the cash deposits before the purchaser credit or the timber sale appraisal allowance for the completed roads in the set-off. The Secretary shall provide each purchaser with a statement of account which shall provide an accounting of any set-offs made pursuant to the preceding sentence.

(2) Any cash deposits that exceed the amount payable to the respective Secretary under subsection (a) (1) (B) shall be refunded to the purchaser within 60 days after the termination.

(3) Purchaser credit earned by purchasers of National Forest System timber and shown in the timber sale statement of account described in paragraph (1) that remain after set-off against amounts owed to the Secretary of Agriculture shall, at the purchaser's election--

(A) be transferred to other contracts with the Secretary of Agriculture held by the purchaser;

(B) be retained by the Secretary of Agriculture for future application by the purchaser to other contracts for the sale of National Forest System timber; or

(C) be assigned to another party with all rights attributable.

(4) The timber sale appraisal allowance for the values of completed roads made in connection with the sale ~~of~~ timber from public lands described in paragraph (1) that remain after set-off against amounts owed to the Secretary of the Interior may, at the purchaser's election--

(A) be transferred to other contracts with the Secretary of the Interior held by the purchaser;

(B) be retained by the Secretary of the Interior for future application by the purchaser to other contracts for the sale of timber from public lands; or

(C) be assigned to another party with all rights attributable.

(5) Purchaser shall be billed for any remaining portion of the amount payable to the Secretary after the set-off in paragraph (1), and purchaser must pay that amount prior to termination of the contract.

(c) A purchaser granted termination of a contract pursuant to this Act shall not, if otherwise eligible, be prevented on account of the termination from bidding on any resale of timber included in a terminated contract.

(d) (1) Timber included in any contract terminated by the Secretary of Agriculture under authority of this Act may be reoffered for sale without regard to the annual limitation imposed on costs of construction of forest roads by timber purchasers as specified in the fourth provision of the paragraph entitled "Construction and Land Acquisition" of title II of the Act entitled "An Act making appropriations for the Department of the Interior and related agencies for the fiscal year ending September 30, 1982, and for other purposes", approved December 23, 1981 (Public Law 97-100; 95 Stat. 1405) or to such annual limitations as may be imposed in appropriation acts for fiscal years 1983, 1984, and 1985.

(2) All terminated and/or defaulted Forest Service timber shall be resold in an orderly fashion and be included in the total allowable sales in the fiscal year in which it is offered.

(e) Until the procedures authorized by this Act shall have been in effect for 45 days, no contract that is eligible for termination or extension under this Act shall terminate or be terminated, without the consent or request of the purchaser.

Sec. 3. (a) Termination dates of any contracts for the purchase of timber from National Forest System lands or public lands that were bid before January 1, 1982, shall, without penalty or any payment which may otherwise be required, be extended, at the written request of the purchaser, by the appropriate Secretary for 5 years from the termination date in effect on the date of enactment of this Act, except that the Secretary may require the purchaser requesting such extension to complete all or a portion of the road construction set forth in the contract by a date to be specified by the Secretary.

(b) Any contract with the termination date adjusted under this section shall require--

(1) removal of 25 per centum of the estimated timber volume by the conclusion of the third operating season of the additional period provided by the adjusted termination date; or

(2) payment by the purchaser of 25 per centum of the contract price, including all payments to date under the contract, by the start of the fourth operating season of the additional period provided by the adjusted termination date.

(c) A contract shall not be available for extension under subsection (a) if it involves substantial amounts of timber subject to rapid deterioration except with approval of the appropriate secretary.

(d) On National Forests west of the summit on the Cascade Range of Forest Service Region 6, the transfer of purchaser credits during a contract term adjustment period provided by this section for roads on which construction was not begun prior to the date of enactment of this Act will be limited to transfer to sales purchased prior to the date of enactment of this Act.

Sec. 4. (a) Notwithstanding any other provision of law, amounts paid to and retained by the Secretary of Agriculture under the provisions of this Act shall be covered into the Treasury and shall constitute a special fund, which is hereby appropriated and made available for use by the Secretary of Agriculture in preparing, advertising, offering, and selling timber.

(b) Notwithstanding any other provision of law, the amounts paid to and retained by the Secretary of the Interior under the provisions of this Act shall be deposited in the Treasury to the credit of the appropriations then current and chargeable for the costs of preparing, advertising, offering, and selling timber.

Sec. 5. The last sentence of Section 4 of the Act entitled "An Act to enable the Secretary of Agriculture to construct and maintain an adequate system of roads and trails for the national forests, and for other purposes", approved October 13, 1964 (78 Stat. 1089; 16 U.S.C. 535) is amended by--

(a) striking out "authorized" and inserting in lieu thereof "directed";

(b) striking out "effective";

(c) inserting after "1975" the following: "under a contract not completed by the date of enactment of this Act"

(d) inserting after "same" the following: "or different"; and

(e) striking out all after "purchaser" the third time it appears to the end of the sentence and inserting in lieu thereof: "; where a purchaser exercises an available option to have the Forest Service construct a road, provisions for transfer of any available credit similar to that provided above in this sentence will be made using the engineer's estimated cost of construction in lieu of the agency's estimated cost of purchaser construction."

Sec. 6. The Secretaries shall publish procedures which have the effect of law implementing the provisions of this Act within 30 days after the date of enactment of this Act.

Stimson Lumber Company

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STATEMENT OF DARRELL H. SCHROEDER
PRESIDENT, STIMSON LUMBER COMPANY

BEFORE THE
SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER
SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
ON S.2805, S.2818
TIMBER RELIEF LEGISLATION

August 16, 1982 - Washington, D.C.

Mr. Chairman, members of the Committee, I am Darrell H. Schroeder, President of Stimson Lumber Company of Portland, Oregon and I am also the President of Miller Redwood Company, a wholly-owned subsidiary with operations in Crescent City, California. Our companies rely to a large extent upon the purchase of public timber as a source of raw material for our lumber, veneer, plywood and hardboard operations in Oregon and California. In this regard we have historically been active bidders on federal timber sales.

While all of us in the timber industry are being adversely affected by the economic conditions which exist today, we believe that the approach to relief being proposed in S.2805 and S.2818 is unfair and aimed at bailing out only a few of the companies in our industry. The low demand for timber products adversely affects all companies in the industry. Permitting selective federal timber contract terminations, however, benefits only a few companies.

Stimson Lumber Company, *Forest Grove, Oregon* / Forest Fiber Products Company, *Forest Grove, Oregon*,
Northwest Petrochemical Corporation, *Anacortes, Washington* / Miller Redwood Company, *Crescent City, California*,
Miller Redwood Company, Plywood Division, *Merlin, Oregon* / Reilim Redwood Company, *Crescent City, California*

Specifically, our major objection to S.2805 and S.2818 is to the proposal which would allow an individual operator to unilaterally terminate some, but not all, of its timber contracts with the federal government. While we agree that there is some merit to a contract termination approach to help the industry, the notion of allowing individual companies to pick and choose the contracts they want to turn back to the government is inequitable as favoring only a select group and not conducive to an industry-wide solution. It must be kept in mind that it is not solely the economy which has caused the problems now confronting the timber industry. Rather, it is a combination of several factors, the most important of which include speculative bidding excesses and hoarding of timber sales which some companies in the Pacific Northwest have engaged in over the past several years. Allowing those companies which obtained federal timber cutting contracts by engaging in irresponsible and excessive bidding to excuse themselves from performance under those contracts because they now deem the price they paid to be too high, is to penalize companies which have traditionally practiced prudent management and refused to become burdened with excessively high cost lumber or which chose to fulfill their obligations by living up to the terms of all their timber contracts with the federal government, whether they liked it or not. If there is to be any contract termination permitted, then in fairness and equity a company seeking such relief should be required to have all its outstanding timber contracts with that particular federal agency terminated. Otherwise, the timber relief legislation, as envisioned by S.2805 and S.2818, become nothing more than special interest legislation favoring only a small segment of the timber industry. S.2805 and S.2818, as drafted, do not address themselves to providing a permanent solution to the current industry-wide problems. It is designed to provide only temporary relief and, therefore, fails to address a long range solution.

As an alternative to the relief provisions included in S.2805 and S.2818 which were proposed by those few companies which stand to benefit, I would suggest that in order to help prevent a future recurrence of the problems now facing the timber industry because of past excesses, the following approach would do far more to alleviate the chaotic conditions which now exist in our industry; would help curtail a repeat of past industry abuses; and would be more considerate of equity for all concerned, i.e., counties and local communities as well as the individual operators.

1. A company should have the option to either:
    a. Terminate 100% of its timber contracts with the Forest Service or Bureau of Land Management; or
    b. Have 100% of its contracts extended for a period of years at a uniform stumpage price to be redetermined by the government, taking into account the equity for counties and local communities.
2. Establish complete new bidding procedures as follows:
    a. Maximum three year contracts.
    b. Twenty percent (20%) down-payment upon awarding of contract.
    c. Sealed bids only.
    d. Maximum volume allowed under contract not to exceed two years annual requirements.
    e. Abolish the present purchaser credit policy and establish a policy of pay as you build.
    f. Establish discount benefits for early compliance and completion on the contract.
3. Establish a cap on the volume of Forest Service and Bureau of Land Management timber to be sold annually for the next five years in order not to artificially disrupt the market.

The aforementioned procedures, if enacted, would help eliminate the speculative bidding which has characterized the industry in the Pacific

Northwest for the past few years and would also tend to discourage hoarding of timber sales. Failure to enact these provisions will only mean that once the temporary measures for relief envisioned in S.2805 and S.2818 no longer work, then the industry will be back to the Congress seeking additional relief.

I urge your adoption of the substitute provisions outlined above.

Thank you.

Darrell H. Schroeder, President
Stimson Lumber Company